

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. It contains the Resolutions to be voted on at a General Meeting of Travelzest plc to be held on 28 August 2009. If you are in any doubt about the contents of this document or the action you should take, you should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended).

If you have sold or otherwise transferred all of your holding of Ordinary Shares, please forward this document together with the accompanying Form of Proxy as soon as possible to the purchaser or transferee, or to the agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you have sold part of your holding, please consult the stockbroker, banker or other agent through whom the sale was made.

Application will be made for the New Ordinary Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority (the "Official List"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made or will be made for admission of the New Ordinary Shares to the Official List. Further, neither the UKLA nor the London Stock Exchange plc has examined or approved the contents of this document. Neither the Ordinary Shares nor the New Ordinary Shares are or will be traded on any other recognised investment exchange and no such applications have been or will be made for the Ordinary Shares or New Ordinary Shares to be admitted to trading on any such exchange.

This document is not to be taken, transmitted or distributed, directly or indirectly, in or into the United States, Australia, the Republic of South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The New Ordinary Shares have not been and will not be qualified under the securities legislation of any province or territory of Canada. Accordingly, the New Ordinary Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly, in or into Canada, or to any national, citizen or resident of Canada.

Any person (including without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the UK should seek appropriate advice before taking any action.

TRAVELZEST PLC

(Incorporated and registered in England and Wales with registered number 04520457)

Proposals for

Placing of up to 114,170,000 New Ordinary Shares at 5 pence per share

Approval of waivers of Rule 9 of the Takeover Code

Approval of authority to increase authorised share capital

Approval of the Management Incentive Arrangement

Approval of authorities to allot Ordinary Shares

Approval of adoption of new articles of association

and

Notice of General Meeting

Investec Investment Banking, a division of Investec Bank plc, which is regulated in the UK by the Financial Services Authority, is acting exclusively for the Company in connection with the proposals in this document, and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Investec Investment Banking or for providing advice in relation to the proposals in this document or any other matter in relation to the contents of this document.

Your attention is drawn to the letter from Peter Thomson, an Independent Director, set out at Part 1 of this document which contains the Independent Directors' recommendation that you vote in favour of the Resolutions to be proposed at the General Meeting.

Set out at the end of this document is a Notice of a General Meeting of the Company, to be held at 3 Noble Street, London EC2V 7EE at 10 a.m. on 28 August 2009. A Form of Proxy for use at the General Meeting is enclosed and, to be valid, should be completed and returned in accordance with the instructions printed on it, as soon as possible but in any event so as to be received by the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey, GU9 7LL no later than 10 a.m. on 26 August 2009. The return of a completed Form of Proxy will not preclude a member from attending and voting in person at the General Meeting.

This document does not constitute or form part of any offer or instruction to purchase, subscribe for or sell any Ordinary Shares or other securities in the Company nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on, in connection with any contract therefor. This document is not a prospectus for the purposes of compliance with the Prospectus Rules.

CONTENTS

	<i>Page number</i>
Expected Timetable	3
Proposals	3
Definitions	4
Part 1 Letter from Peter Thomson, Independent Director	7
Part 2 Financial Information relating to the Group	19
Part 3 Additional Information	66
Notice of General Meeting	89

EXPECTED TIMETABLE

	2009
Posting of this document and the Form of Proxy to Shareholders	5 August
Latest time and date for receipt of Forms of Proxy	10 a.m. on 26 August
General Meeting	10 a.m. on 28 August
CREST accounts credited with the New Ordinary Shares	1 September
Latest date for despatch of definitive share certificates for the New Ordinary Shares held in certificated form	15 September

Each of the times and dates in the above timetable are London times and are subject to change at the absolute discretion of the Company and Investec.

PROPOSALS

Placing Price	5p
Amount raised (before expenses)	approximately £5.7 million
Current Issued Share Capital	30,966,110
New Ordinary Shares to be issued pursuant to the Placing	up to 114,170,000
Enlarged Issued Share Capital	145,136,110
Maximum number of Incentive Options to be granted pursuant to the Management Incentive Arrangement	20,733,730

DEFINITIONS

In this document, the following expressions have the following meanings, unless the context requires otherwise:

“acting in concert”	has the meaning attributed to it in the Takeover Code
“Admission”	the admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Rules”	the rules for companies whose securities are admitted to trading on AIM as published by the London Stock Exchange from time to time
“Amended Facility Agreement”	the amended debt facility agreement between Barclays and the Company dated 5 August 2009 described in paragraph 6 of Part 3
“Barclays”	Barclays Bank plc
“Board” or “Directors”	the board of directors of the Company from time to time
“Business Day”	a day (other than a Saturday or Sunday) when banks are usually open for business in London
“CAD”	Canadian dollars
“CanCo”	6615716 Canada Inc., a company incorporated under the federal laws of Canada on 22 August 2006
“CanCo Holding”	6615635 Canada Inc., a company incorporated under the federal laws of Canada on 22 August 2006
“Company” or “Travelzest”	Travelzest plc, a company incorporated and registered in England and Wales with registered number 04520457
“Concert Party”	together NewCo, CanCo, Starline, CanCo Holding, Ely Trust and each of the Concert Party Beneficiaries (each a “ Concert Party Member ”)
“Concert Party Beneficiaries”	the persons beneficially interested in the Concert Party, being Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey D. MacKenzie, J. Brian Hewlitt and John (Jack) Fraser (each a “ Concert Party Beneficiary ”)
“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear UK & Ireland Limited which facilitates the transfer of title to shares in uncertificated form (as defined in the CREST Regulations)
“CREST Manual”	the manual issued by Euroclear UK & Ireland Limited from time to time
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), including (i) any enactment or subordinate legislation which amends or supersedes those regulations and (ii) any applicable rules made under those regulations or any such enactment or subordinate legislation for the time being in force
“Debt Facility”	the £16 million debt finance facility made available by Barclays pursuant to the terms of a facility agreement dated 19 June 2008, to be amended and restated in accordance with the terms of the Amended Facility Agreement with effect from Admission
“Ely Trust”	a discretionary <i>inter vivos</i> trust settled on 17 October 1997, the current trustee of which is Tower Trustees Limited, a corporation incorporated in Nevis and resident in St Kitts and Nevis

“EMI Scheme”	the Enterprise Management Incentive Scheme adopted by the Company on 1 April 2005
“Enlarged Issued Share Capital”	the enlarged issued share capital of the Company following the Placing assuming no default by any of the Placees
“FSMA”	the Financial Services and Markets Act 2000, as amended from time to time
“Form of Proxy”	the form of proxy for use by Shareholders in connection with the General Meeting
“Gartmore”	Gartmore Investment Limited, and such funds as are managed by Gartmore Investment Limited
“General Meeting”	the general meeting of the Company convened for 10 a.m. on 28 August 2009 at which the Resolutions will be proposed, notice of which is set out at the end of this document
“Group”	the Company and its Subsidiaries
“Holiday Express”	Holiday Express (UK) Limited, a company incorporated in England and Wales with company number 04215384
“IFRS”	the International Financial Reporting standards as issued by the Board of International Standards Committee from time to time
“Incentive Options”	options to be authorised pursuant to the Management Incentive Arrangement
“Independent Directors”	Peter Thomson and Nishma Robb
“Independent Shareholders”	the Shareholders, other than the Placees who hold Ordinary Shares or any person acting in concert with any such Placee (including any members of their respective immediate families, related trusts or connected persons)
“Investec”	Investec Investment Banking, a division of Investec Bank plc
“Issued Share Capital”	the issued ordinary share capital of the Company as at 4 August 2009, being the latest practicable date prior to the posting of this document, being 30,966,110 Ordinary Shares
“itravel2000”	4358376 Canada Inc. (operating as itravel2000), a company incorporated under the federal laws of Canada with Ontario registration number 01360944
“London Stock Exchange”	London Stock Exchange plc
“Management Incentive Arrangement”	the grant of up to 20,733,730 Incentive Options to certain Directors and senior employees of the Group as set out in paragraph 14 of Part 1
“Merchant Securities”	Merchant Securities Group Limited, whose registered office is at John Stow House, 18 Bevis Marks, London EC3A 7JB
“NewCo”	7198914 Canada Inc., a company incorporated under the federal laws of Canada on 30 June 2009 for the purposes of participation in the Placing
“New Ordinary Shares”	Ordinary Shares to be issued pursuant to the Placing
“Notice of General Meeting”	the notice of General Meeting set out at the end of this document
“Options”	the 1,445,328 options granted by the Company pursuant to the Share Option Schemes entitling the holders to subscribe for 1,445,328 Ordinary Shares
“Optionholders”	the holders of Options
“Ordinary Shares”	ordinary shares of 2p each in the capital of the Company
“Placees”	NewCo, Gartmore, Merchant Securities (certain clients only), Brewin Dolphin Limited (certain clients only), Universities Superannuation Scheme Limited, Investec Bank plc (in its role as

	market maker to the Company), Mark Molyneux, Jack Fraser, Richard Hall, Mary Jean Tully and Ranjit Singh Anand
“Placing”	the placing to the Places of the New Ordinary Shares at the Placing Price
“Placing Agreement”	the conditional agreement, dated 5 August 2009 between the Company and Investec, a summary of the terms of which is set out in paragraph 6 of Part 3
“Placing Price”	5 pence per New Ordinary Share
“Proposals”	the Placing and the approval of the Resolutions, including a resolution concerning the Rule 9 Waivers, the resolution to approve the Management Incentive Arrangement, resolutions to increase the Company’s share capital and concerning general authorities for the Company to allot Ordinary Shares and a resolution concerning the adoption of new articles of association
“Prospectus Rules”	the Prospectus Rules of the UKLA
“Related Party Transactions”	the placing of New Ordinary Shares to NewCo, Merchant Securities, Gartmore, Mark Molyneux, Jack Fraser and Richard Hall and the grant of Incentive Options
“Resolutions”	the resolutions to be proposed at the General Meeting and set out in the Notice of General Meeting
“Rule 9 Waivers”	the waivers of the obligation, which would otherwise arise on the Concert Party Members and Gartmore respectively to make a general offer under Rule 9 of the Takeover Code, conditional on the passing of Resolution 1 at the General Meeting
“Share Option Schemes”	the EMI Scheme and the Unapproved Share Option Scheme
“Shareholder”	a holder of Ordinary Shares
“Starline”	Starline Project Services Limited, a company incorporated under the laws of the Isle of Man on 8 March 2001 with company number 102280C
“Subsidiary”	to be construed in accordance with section 1162 of the 2006 Act
“Takeover Code”	the City Code on Takeovers and Mergers
“Takeover Panel”	the Panel on Takeovers and Mergers
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	The Financial Services Authority, acting through the United Kingdom Listing Authority, in its capacity as the competent authority for the purposes of Part VI of FSMA
“Unapproved Share Option Scheme”	the Company’s Unapproved Share Option Scheme
“United States”	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction
“USD”	US dollars
“VFB Holidays”	VFB Holidays Limited, a company incorporated in England and Wales with company number 01159206
“Warrants”	the 5,246,449 warrants issued by the Company entitling the holders thereof to subscribe for 5,246,449 Ordinary Shares
“1985 Act”	the Companies Act 1985 (as amended)
“2006 Act”	the Companies Act 2006

PART 1

LETTER FROM PETER THOMSON, INDEPENDENT DIRECTOR

Travelzest plc

(Incorporated and registered in England and Wales with registered number 04520457)

Directors:

Mark Molyneux (*Non-Executive Chairman*)
Jonathan Carroll (*Chief Executive Officer*)
John (Jack) Fraser (*Group Chief Operating Officer and Financial Director*)
Nishma Robb (*Group Distribution Director*)
Richard Hall (*Non-Executive Director*)
Peter Thomson (*Non-Executive Director*)

Registered Office:

Farm Cottage
Heath House
Wedmore
Somerset BS28 4UG

5 August 2009

To Shareholders and, for information only, to Optionholders and to the holders of Warrants

Dear Shareholder

Proposals for

Placing of up to 114,170,000 New Ordinary Shares at 5 pence per share

Approval of waivers of Rule 9 of the Takeover Code

Approval of authority to increase authorised share capital

Approval of the Management Incentive Arrangement

Approval of authorities to allot Ordinary Shares

Approval of adoption of new articles of association

and

Notice of General Meeting

1. Introduction

The Company announced today that it proposes to raise approximately £5.7 million (before expenses) through the issue of the New Ordinary Shares at the Placing Price. It is proposed that the New Ordinary Shares are issued to NewCo, a company beneficially owned by certain Concert Party Members, to some directors and employees of the Group and to certain existing institutional and other Shareholders. The Placing is not underwritten.

It was also announced today that the Company has entered into the Amended Facility Agreement. The Amended Facility Agreement is subject to, and will become effective on, Admission.

The Company does not have sufficient authorised but unissued ordinary share capital to issue the New Ordinary Shares. In addition, there is no existing Shareholder authority for the Directors to allot new Ordinary Shares or for the disapplication of pre-emption rights which would be required to permit the non pre-emptive issuance of new Ordinary Shares. Consequently, the issuance of the New Ordinary Shares is subject to Shareholder approval being given to increase the authorised share capital of the Company and permit the issue of, and disapplication of pre-emption rights in relation to, new Ordinary Shares.

The remuneration committee of the Board has approved a new Management Incentive Arrangement for Mark Molyneux, Jonathan Carroll and Jack Fraser, along with certain other senior employees of the Group (subject to Shareholder approval). The Company is seeking Shareholder approval for the Management Incentive Arrangement and related authorities to allot Ordinary Shares pursuant to such arrangement. In addition, the Company is taking this opportunity to adopt new articles of association in substitution for the Company's existing articles of association.

Gartmore and Merchant Securities (which respectively hold interests in 12.0 per cent. and 25.3 per cent. of the Issued Share Capital) are each classified as a related party of the Company for the purposes of the AIM Rules, by virtue of each of them having a substantial shareholding (as defined

by the AIM Rules) in the Company. Gartmore and Merchant Securities are each taking part in the Placing, and such participations constitute related party transactions under the AIM Rules.

Richard Hall (Non-executive Director), Mark Molyneux (Non-executive Chairman) and Jack Fraser (Group Chief Operating Officer and Financial Director) are related parties of the Company for the purposes of the AIM Rules, by virtue of each being a director of the Company. NewCo is also a related party of the Company by virtue of it being an associate (as defined by the AIM Rules) of Jonathan Carroll and Jack Fraser, directors of the Company. NewCo, Richard Hall, Mark Molyneux and Jack Fraser are taking part in the Placing, and their participations each constitute related party transactions under the AIM Rules. It is proposed that Mark Molyneux, Jonathan Carroll and Jack Fraser all be granted Incentive Options, which in aggregate also constitutes a related party transaction under the AIM Rules.

The purpose of this document is to give details of the Placing, the Amended Facility Agreement, the proposed Management Incentive Arrangement and the Related Party Transactions and to convene a General Meeting at which the Shareholders will be asked to pass the Resolutions which will permit the Company to effect the Placing, approve the Rule 9 Waivers (referred to below), approve the Management Incentive Arrangement and adopt new articles of association.

The Concert Party Members are deemed to be acting in concert with each other. As at the date of this document, the Concert Party Members are interested in 10,572,614 issued Ordinary Shares, representing approximately 34.1 per cent. of the Issued Share Capital. In addition, as at the date of this document, Gartmore is interested in 3,724,491 Ordinary Shares, representing approximately 12.0 per cent. of the Issued Share Capital. Immediately following completion of the Proposals, assuming no further Ordinary Shares are issued (other than the New Ordinary Shares), the Concert Party Members, in aggregate, and Gartmore will be interested in 51,572,614 and 43,724,491 issued Ordinary Shares respectively, representing approximately 35.5 and 30.1 per cent. respectively, of the Enlarged Issued Share Capital.

It is proposed that, among other people, Jonathan Carroll and Jack Fraser, two of the Concert Party Members, be granted Incentive Options. Details of the proposal regarding Incentive Options are set out at paragraph 14 of this Part 1. If Jonathan Carroll and Jack Fraser are granted the maximum number of Incentive Options currently proposed to be granted to them and, when permitted, exercise their Incentive Options in full (assuming no other exercise of Incentive Options, Options or Warrants), the Concert Party would be interested in 64,091,592 Ordinary Shares representing approximately 40.7 per cent of the enlarged issued share capital of the Company immediately after such exercise.

Ordinarily, the Placing and, in the case of the Concert Party, the grant of Incentive Options to Jonathan Carroll and Jack Fraser, would trigger an obligation on the Concert Party and Gartmore respectively to make a general offer to Shareholders for the entire issued share capital of the Company pursuant to the Takeover Code. The Takeover Panel has agreed, however, to waive each of the Concert Party's and Gartmore's obligations to make a general offer, subject to Resolution 1 (as set out in the notice convening the General Meeting) being passed on a poll by the Independent Shareholders.

The New Ordinary Shares will be issued credited as fully paid and will rank *pari passu* with the Issued Share Capital (including the right to receive all dividends or other distributions declared, made or paid thereon after the date of Admission). It is expected that, should the relevant approvals be obtained at the General Meeting, the New Ordinary Shares will be admitted to trading on AIM on 1 September 2009.

You will find set out at the end of this document the Notice of General Meeting to be held on 28 August 2009 at which the Resolutions will be proposed.

2. Travelzest background

Travelzest is a travel group offering specialist holiday programmes and travel agency operations. It was admitted to trading on AIM in October 2005 with one trading subsidiary, VFB Holidays. At that time it also announced the acquisition of Holiday Express, which was classified as a reverse takeover under the AIM Rules. Since then, the Company has announced the acquisition or launch of a further 9 businesses, including the acquisition of itravel2000, a Canadian based on-line travel agent, which was completed in October 2006 and classified as a reverse takeover under the AIM Rules.

The Company has issued 9,731,142 Ordinary Shares to institutional and other investors since 3 October 2005, *inter alia*, to part fund the acquisitions made since that date. In addition, the

Company has issued a total of 13,176,592 Ordinary Shares to the vendors of businesses that have been acquired since 3 October 2005. This includes 10,572,614 Ordinary Shares issued to CanCo on 17 April 2009, pursuant to an exchange rights agreement dated 13 October 2006, in exchange for shares in Travelzest Holdings Inc., an indirect wholly owned subsidiary of the Company, which were issued as consideration for the acquisition of ittravel2000 in October 2006.

The Company now consists of eleven operating units, nine of which are specialist tour operators and two of which are agency businesses which span both the UK and Canada, and which include the websites ittravel2000.com, holiday.co.uk and flight.co.uk.

On 24 April 2009, the Company made the following announcement:

“The Board of Travelzest announces that it has started an investigation into a potential misappropriation of Company funds. This investigation will be conducted in line with Company policy. The Board currently does not believe that the sums involved are material in the context of the Travelzest group as a whole. The Board also announces that Christopher Mottershead, Chief Executive Officer of the Company, has today been suspended from his Executive responsibilities with immediate effect pending the outcome of the investigation. Jonathan Carroll, Executive Director of the Company, will assume the role of interim Chief Executive Officer whilst the Company conducts the investigation. A further announcement will be made as appropriate.”

On 12 May 2009, the Company made the following announcement:

“The Board of Travelzest announces that the Company and Colin McKinlay, the former Group Finance Director, had agreed that Colin McKinlay would step down from his role as Group Finance Director with immediate effect and that Jack Fraser, Chief Finance Officer of ittravel2000 has been appointed to the Board to assume the role of Group Finance Director”.

Mr Fraser’s role was further altered on 30 June 2009 to Group Chief Operating Officer and Financial Director. On 30 June 2009, Colin McKinlay ceased to be employed by the Company and consequently stepped down as a director of the Company.

On 23 June 2009, the Company made the following announcement:

“The Board of Travelzest announces that the Company and Chris Mottershead have agreed that he will today step down as the Chief Executive Officer of the Company. Mr Mottershead’s suspension has been lifted and he will remain an employee of the Company until 15 July 2009 and a director of the Company until further notice. The Board further announces that its investigation into the allegation of a potential misappropriation of Company funds, which it announced on 24 April 2009, has been concluded. The allegation is unsubstantiated and all monies are accounted for. Whilst it is satisfied that it took all appropriate steps and acted in accordance with its obligations throughout the process, the Board regrets any upset or distress caused to Mr Mottershead as a result. Jonathan Carroll, who has been acting as interim Chief Executive Officer of the Company since 24 April 2009, will replace Mr Mottershead as Chief Executive Officer with effect from today.”

On 1 July 2009, the Company made the following announcement:

“The Board of Travelzest wishes to announce the resignation of Chris Mottershead as a director of the Company with immediate effect.”

3. Travelzest strategy

The Directors believe that the Group is well placed to grow by focussing on its existing brands and operations to gain market share as well as benefiting from growth in the markets in which it operates. The Directors believe that there are signs of improved consumer confidence in both the UK and Canadian markets.

The Directors believe the key strengths of the Group to be as follows:

- a strong market position in Canada – the Directors believe that ittravel2000’s current market share provides distribution strength in the marketplace and margin stability through the Group’s relationship with its suppliers;
- distribution capability – the Directors believe that the Group has strong distribution capabilities in Canada including a significant on-line presence with which it will be able to exploit and distribute its specialist offering;
- a customised, niche product offering through its UK tour operators;

- a business model with low levels of guarantees and commitments – the Group operates a business model that the Directors believe is lower risk than tour operators which operate with significant commitments to airline or hotel operators prior to bookings being made by customers. Approximately 88 per cent. of the Group's total transaction value in the year to 31 October 2008 was generated through non-risk retail operations;
- significant opportunities to cross-sell the Group's portfolio of destinations to its customer bases in Canada and the UK – the Directors believe that the current strength of the CAD against pound sterling and the Euro makes the Group's UK and European destinations more attractive for its Canadian customer base;
- the Group's customer base – this is split between mid and upper income profiles which the Directors believe are generally more resilient to any prolonged economic downturn; and
- its ability to leverage knowledge and best practices between each of the Subsidiaries in areas such as product, marketing and advertising.

The Directors believe that there are opportunities for growth in the following areas:

- leveraging the Group's existing on-line capabilities. The Group has made significant investment in its online capabilities and a new inventory management system in Canada. The Directors believe that itravel2000's online capabilities can be leveraged across the Group's other platforms and will allow for the integration of the Group's UK products into itravel2000's distribution channels;
- cross-selling existing products. The Directors believe that there is an opportunity to sell the Group's product portfolio into the itravel2000 customer base;
- geographic reach of itravel2000 within the Canadian market. A sales office was established in Quebec in 2008 and the Directors anticipate that sales growth in this region will continue;
- later bookings in both the Canadian and UK travel markets. The Directors believe this benefits the Group's online business model with the ability to bring distressed inventory to the market in a very short time period; and
- reviewing new products to integrate into the existing inventory base, improving the range of products for the Group's customers.

The Directors have commenced a cost reduction programme within the Group. Ongoing salary costs have been reduced by rationalising the roles of Jonathan Carroll and Jack Fraser to cover those of Chief Executive and Group Chief Operating Officer and Financial Director. Certain other roles have also been eliminated that provide additional cost savings going forward. The Directors believe that there is scope to reduce costs further and that the following areas offer significant scope for cost reduction:

- the Group has given notice to terminate the lease on its head office in Berkhamstead and alternative, more cost efficient head office premises are being sought elsewhere. The Group currently has 9 offices in two countries (including the head office in Berkhamstead) and could benefit from further cost savings through a further reduction in the number of Group offices;
- moving offline sales to online channels which, the Directors believe, will lead to cost efficiencies;
- improving operational productivity within the Group through the implementation of best of breed technology and best practice to reduce operational overheads; and
- continual rationalisation of costs through operational consolidation at a tour operator level in areas such as IT and improved reporting procedures, compliance and controls.

The Directors recognise that a future weakening of the USD and CAD would be detrimental to the Group's earnings, which are reported in pounds sterling. The Directors therefore propose to continue to hedge the Group's currency exposure.

4. Market

Both the Canadian and the UK online travel markets are forecasting growth in 2009 due in part to the improved capabilities of retailers' websites.

In Canada, consumer confidence, is improving with The Conference Board of Canada reporting an increase in the Consumer Confidence Index for the third consecutive month to May 2009. The Directors believe that there remains an oversupply of air capacity for 2009 which is causing suppliers to be increasingly dependent on third party distribution to liquidate distressed inventory and to be

competitive by reducing prices. Canadian customers travelling outside of Canada are favouring the Group's product destinations such as Turkey, Malaysia, Spain and Ireland with each such location seeing an increase in Canadian travellers for the period to March 2009 compared to the same period in 2008. (Source: Outbound Canada Report, the Conference Board of Canada, May 2009).

In the UK, there has been a reduction in capacity from some of the largest tour operators. In addition, long-haul forward bookings for 2009 are reported as declining by 20 per cent. The Gfk NOP Survey of Consumer Confidence (30 June 2009) has indicated that consumer confidence shows continued recovery and is up 14 points from its all time low in 2008. A stronger Euro (as against pounds sterling) has, in the Directors' opinion, led to a pressure to increase prices to Euro currency destinations. Non-European destinations are showing a significant increase in volume with purchases of holidays to certain non-European destinations doubling for the year ended January 2009.

5. Trading update and reasons for the Placing

On 26 February 2009, the Group reported its preliminary results for the year to 31 October 2008. In that year, the Group reported an underlying operating profit (before amortisation and separately disclosed items) of £5.1 million, an operating loss of £2.3 million and net debt of £10.9 million. At 31 October 2008, the Company had fully drawn down the Debt Facility of £16.0 million. On 28 November 2008, the Company repaid £1.0 million under the terms of the Debt Facility and on 29 May 2009 it repaid a further £0.5 million.

On 31 July 2009, the Group reported its interim results for the six months ended 30 April 2009. In the six months to 30 April 2009, the Group reported an underlying operating profit (before amortisation and separately disclosed items) of £2.6 million, an operating profit of £1.55 million and had net debt of £11.7 million.

As part of the interim results announcement, Mark Molyneux, Chairman of the Company stated:

“The Board continues to be cautious in our outlook for the second half of 2009 due to the difficult economic conditions in both Canada and the UK, the weakness of Sterling against the Euro and the lateness of consumer bookings that currently exists in the market.

The various new strategies being implemented around rationalisation of operations, integrating Travelzest's distribution power and specialised products is likely to generate additional growth for the UK operations and thus a stronger base for growth overall.

Going forward the Group sees no changes in the general outlook from those experienced in the first half of the financial year.”

The Group has incurred significant non-recurring cash costs relating to the closure of the operations of Holiday Express, costs associated with the recent changes in management, premises move costs, management compensation, fees in relation to the Placing and the Amended Debt Facility and other recent events. In the year to 31 October 2008, the level of separately disclosed items was reported as £3.6 million. In the six months to 30 April 2009 the Group reported exceptional costs of £0.5 million and reported that it anticipated that it would incur additional exceptional costs in the second half of the financial year.

Under the terms of the existing Debt Facility, a further £2.0 million is due to be repaid in November 2009.

In light of the challenging economic environment, the tight credit markets and the level of exceptional cash costs incurred by the Group, the Board has determined that it is unlikely to have sufficient cash to make the repayment due in November 2009 under the Debt Facility. The Directors therefore believe it is necessary to renegotiate the Debt Facility and have agreed with Barclays the terms of the Amended Facility Agreement, further details of which are set out at paragraph 15 below and in paragraph 6 of Part 3. In view of the Amended Facility Agreement being conditional, *inter alia*, on Admission, if the proceeds of the Placing are not received then the Amended Facility Agreement will not become effective and the Group will remain subject to the Debt Facility.

The Directors believe that the Placing represents the only viable means of meeting the equity fundraising conditions of the Amended Facility Agreement and of ensuring that the Group has sufficient working capital. The implications of the Placing not proceeding and the Amended Facility Agreement not becoming effective are set out in paragraph 19 below.

The Directors believe that it was not appropriate to issue shares on a pre-emptive basis due to the time and costs associated with such an issue. In addition, the Concert Party has confirmed to the Company that it would not vote in favour of resolutions proposed to approve a pre-emptive issue.

£2.0 million of the net proceeds from the Placing will be pledged to Barclays as security, and will be released to the Company if the following conditions are satisfied: (i) the Group's last twelve months EBITDA is greater than half its gross debt at the end of any quarter, (ii) at that time the last twelve months' EBITDA is £6,500,000 or greater and (iii) the Directors have certified to Barclays that they believe that the Group will comply with its financial covenant obligations in the following 12 month period. If these conditions are not satisfied the cash will remain in the pledged account until either the Company requests that it is applied in prepayment of the facilities or, following a default, Barclays enforces its security over the account. The next principal repayments under the Amended Facility Agreement will be £465,750 and CAD\$2,002,869.53 in May 2010. The balance of the net proceeds of the Placing will be used for working capital purposes.

6. Placing

Pursuant to the Placing, the New Ordinary Shares have been conditionally placed with NewCo, some directors and employees of the Group and certain existing institutional and other Shareholders at the Placing Price. The Placing has not been underwritten.

The Placing Price represents a discount of approximately 72.2 per cent. to the closing mid market price of 18 pence per Ordinary Share on 4 August 2009 (being the latest practicable date prior to the publication of this document).

Subject to the Placing becoming unconditional, the Placing will raise approximately £5.7 million before expenses (approximately £5.1 million net of expenses) for the Company. The New Ordinary Shares will represent approximately 78.7 per cent. of the Enlarged Issued Share Capital of the Company. The New Ordinary Shares will be issued credited as fully paid and will, on issue, rank *pari passu* with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of Admission.

Gartmore has indicated that it would not take part in the Placing unless Mark Molyneux, Jonathan Carroll and Jack Fraser continue their current roles in the Company.

The Concert Party Members and Gartmore are, as at the date of this document directly or indirectly beneficially interested in and, subject to the Placing becoming unconditional, will be beneficially interested in, the following number of Ordinary Shares:

	Number of Ordinary Shares held at the date of this document	% of Issued Share Capital	Number of New Ordinary Shares	Number of Ordinary Shares immediately following Admission ³	% of Enlarged Issued Share Capital immediately following Admission ³	Number of Ordinary Shares under Option	Maximum number of Ordinary Shares subject to Incentive Options ³	% of Enlarged Issued Share Capital following Admission and assuming exercise of all Options and Incentive Options by Concert Party Members but excluding Warrants ³
Direct interest								
Gartmore ⁴	3,724,491	12.0	40,000,000	43,724,491	30.1	Nil	Nil	27.7
CanCo	10,572,614	34.1	Nil	10,572,614	7.3	Nil	Nil	6.7
NewCo	Nil	Nil	40,000,000	40,000,000	27.6	Nil	Nil	25.4
Jonathan Carroll	Nil	Nil	Nil	Nil	Nil	Nil	6,220,119	3.9
Jack Fraser	Nil	Nil	1,000,000	1,000,000	0.7	78,740	6,220,119	4.6
TOTAL⁵	14,297,105	46.2	81,000,000	95,297,105	65.7	78,740	12,440,238	68.4
Indirect interest								
Ely Trust	10,572,614	34.1	Nil	10,572,614	7.3	Nil	Nil	6.7
Edward J. Carroll	— ¹	— ¹	8,000,000 ²	8,000,000 ^{1,2}	5.5 ^{1,2}	Nil	Nil	5.1
Shane G. Carroll	— ¹	— ¹	8,000,000 ²	8,000,000 ^{1,2}	5.5 ^{1,2}	Nil	Nil	5.1
Jonathan Carroll	— ¹	— ¹	8,000,000 ²	8,000,000 ^{1,2}	5.5 ^{1,2}	Nil	Nil	5.1
Jeffrey D. MacKenzie	— ¹	— ¹	8,000,000 ²	8,000,000 ^{1,2}	5.5 ^{1,2}	Nil	Nil	5.1
Jack Fraser	Nil	Nil	8,000,000 ²	8,000,000 ²	5.5 ²	Nil	Nil	5.1
Elizabeth Carroll	— ¹	— ¹	Nil	— ¹	— ¹	Nil	Nil	— ¹
J. Brian Hewlitt	— ¹	— ¹	Nil	— ¹	— ¹	Nil	Nil	— ¹

1 The Ely Trust is a discretionary inter vivos trust the present beneficiaries of which are Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey MacKenzie and J. Brian Hewlitt. The Ely Trust holds all of the issued and outstanding share capital of CanCo Holding which, in turn, holds all of the issued and outstanding share capital of Starline, which then holds all of the issued and outstanding share capital of CanCo, as described in paragraph 3 of Part 3 below. Due to the discretionary nature of

- the Ely Trust, it is not possible to determine the indirect interest in Ordinary Shares currently held by the present beneficiaries through the trust.
- 2 On Admission, Edward J. Carroll, Shane Carroll, Jonathan Carroll, Jeffrey D. MacKenzie and Jack Fraser will each hold 20 per cent. of the issued share capital of NewCo, representing an indirect beneficial interest by each of them in 8,000,000 Ordinary Shares.
 - 3 Assuming passing of all Resolutions.
 - 4 Registered in the name of various nominees (Vidacos Nominees Limited, BNY GIL Client Account (Nominees) Limited, and HSBC Global Custody Nominee (UK) Limited).
 - 5 Any casting differences due to rounding.

Each of NewCo and Gartmore have agreed that their participation in the Placing shall be such that, in the case of the Concert Party, its interest in the Enlarged Issued Share Capital immediately following Admission shall be no greater than 35.53 per cent. and in the case of Gartmore, its interest shall be no greater than 30.13 per cent.. In light of this, if the number of New Ordinary Shares issued is less than anticipated NewCo and Gartmore's participation in the Placing will be adjusted accordingly.

Application will be made for the New Ordinary Shares to be admitted to trading on AIM. The New Ordinary Shares have not been marketed in whole or in part to the public in conjunction with the application for Admission. The Placing is conditional upon, *inter alia*, Admission taking place on 1 September 2009 (or such later time as Investec and the Company agree, but in any event being no later than 30 September 2009).

Further details of the Placing Agreement between the Company and Investec are set out in paragraph 6 of Part 3.

7. The Board

Details of the Directors are set out below:

Mark Molyneux (aged 54) – Non-Executive Chairman

Mark was appointed to the Board as a non-executive director in October 2006. He is a Chartered Accountant and also Chairman of three private equity backed companies: Penn Pharma Group Limited, Davies Group Limited and AC Acquisitions Limited.

Jonathan Carroll (aged 41) – Chief Executive Officer

Jonathan is President and co-founder of itravel2000. He is also a founding board member of the Lakefield College School Foundation. In 2005, Jonathan Carroll was awarded the Top 40 Under 40 Award honouring the best and most accomplished young professionals in Canada. Jonathan sits on the boards of Lakefield College School Foundation and Jays Care Foundation.

Jack Fraser (aged 39) – Group Chief Operating Officer and Financial Director

Jack was appointed as Group Finance Director on 12 May 2009. Prior to this, he was Chief Financial Officer and Head of Corporate Development for itravel2000. Prior to joining itravel2000, Jack spent over 10 years in the financial markets with RBC Financial Group and BMO Financial Group. Jack also assisted two early stage internet startups in the United States and Canada in senior operations and corporate development roles. Jack is a board member of Your Quick Gateway (Windsor) Inc., operating as Windsor International Airport.

Nishma Robb (aged 35) – Group Distribution Director

Nishma is responsible for developing the Group's online capability. She joined Travelzest as a Director in April 2006 from Teletext Holidays, a subsidiary of Associated Newspapers (a division of Daily Mail & General Trust plc) of which she was a board director.

Richard Hall (aged 68) – Non-executive Director and Company Secretary

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 he took to the main market of the London Stock Exchange. Since 1989, Richard has run his own consultancy company with a number of non-executive directorships, including an AIM listed company offering corporate, commercial and financial advice to major clients. Richard joined the Board in 2003.

Peter Thomson (aged 76) – 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 and medium-sized developing companies as a part-time director or adviser. He is a Fellow-Commoner of Downing College, Cambridge. Peter joined the Board in September 2002.

8. Financial information concerning the Group

Your attention is drawn to Part 2 of this document which contains information extracted from the audited financial statements for the Group for the years ended 31 October 2006, 31 October 2007 and 31 October 2008 and the unaudited financial statements for the six month period ended 30 April 2009.

9. Related party transactions

Gartmore and Merchant Securities (which respectively hold interests in 12.0 per cent. and 25.3 per cent. of the Issued Share Capital) are each classified as a related party of the Company for the purposes of the AIM Rules, by virtue of each of them having a substantial shareholding (as defined by the AIM Rules) in the Company. Gartmore and Merchant Securities are each taking part in the Placing, and such participations constitute related party transactions under the AIM Rules.

Richard Hall (Non-executive Director), Mark Molyneux (Non-executive Chairman) and Jack Fraser (Group Chief Operating Officer and Financial Director) are related parties of the Company for the purposes of the AIM Rules, by virtue of each being a director of the Company. NewCo is also a related party of the Company by virtue of it being an associate (as defined by the AIM Rules) of Jonathan Carroll and Jack Fraser, directors of the Company. NewCo, Richard Hall, Mark Molyneux and Jack Fraser are taking part in the Placing, and their participations each constitute related party transactions under the AIM Rules. It is proposed that Mark Molyneux, Jonathan Carroll and Jack Fraser each be granted Incentive Options, which in aggregate constitutes a related party transaction under the AIM Rules.

The Independent Directors, having consulted with the Company's nominated adviser, Investec, consider that the Related Party Transactions are fair and reasonable so far as the Shareholders are concerned. In providing advice to the Independent Directors, Investec has taken into account the Independent Directors' commercial assessments.

The Independent Directors further believe that the Proposals are in the best interests of Shareholders so I am writing to you in Mark Molyneux's stead, to give you details of the Proposals, and to recommend (together with the other Independent Director) that you vote in favour of the Resolutions, with all Resolutions being necessary to implement the Proposals.

10. City Code on Takeovers and Mergers

The Placing gives rise to certain considerations under the Takeover Code. Brief details of aspects of the Takeover Code and the protections it affords are described below.

The Takeover Code is issued and administered by the Takeover Panel. The Takeover Code applies to all takeover and merger transactions, however effected, where the offeree company is, *inter alia*, a listed or unlisted public company with its place of central management and control in the United Kingdom. The Company is such a company and the Shareholders are entitled to the protection afforded by the Takeover Code.

Under Rule 9 of the Takeover Code, any person who acquires an interest (as defined in the Takeover Code) in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of the company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer will normally be required if a further interest in shares is acquired by any such person, or any person acting in concert with him.

An offer under Rule 9 must be made in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares of the company during the 12 months prior to the announcement of the offer.

For the purposes of the Takeover Code, a concert party arises where persons acting in concert pursuant to an agreement or understanding (whether formal or informal) actively co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Control for the purposes of the Takeover Code is defined as an interest, or interests, in shares carrying in aggregate 30 per cent. or more of the voting rights of a company, irrespective of whether such interest or interests give *de facto* control.

The Concert Party Members are (1) NewCo, (2) CanCo, (3) Starline, (4) CanCo Holding, (5) the Ely Trust (6) Jack Fraser and (7) the beneficiaries of the Ely Trust being Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey D. MacKenzie and J. Brian Hewlitt. Details of the relationship between the Concert Party Members are set out in paragraph 3 of Part 3. The Concert Party Members have agreed with the Company that they are acting in concert for the purposes of the Takeover Code. Investec, acting as the Rule 3 adviser for the purposes of the Takeover Code, has agreed with this approach.

Members of the Concert Party are currently interested in 10,572,614 issued Ordinary Shares, representing approximately 34.1 per cent. of the Issued Share Capital. Immediately following completion of the Proposals the Concert Party Members will, assuming no further Ordinary Shares are issued (other than the New Ordinary Shares), be interested in 51,572,614 issued Ordinary Shares, representing approximately 35.5 per cent. of the Enlarged Issued Share Capital. In addition, if Jonathan Carroll and Jack Fraser are granted the maximum number of Incentive Options currently proposed to be granted to them and, when permitted, exercise their Incentive Options in full (assuming no other exercise of Incentive Options, Options or Warrants), the Concert Party would be interested in 64,091,592 issued Ordinary Shares representing approximately 40.7 per cent of the enlarged issued share capital of the Company immediately after such exercise.

Gartmore currently holds an interest in 3,724,491 Ordinary Shares, representing approximately 12.0 per cent. of the Issued Share Capital. Immediately following completion of the Proposals, Gartmore will, assuming no further Ordinary Shares are issued (other than the New Ordinary Shares), be interested in 43,724,491 Ordinary Shares, representing approximately 30.1 per cent. of the Enlarged Issued Share Capital.

A table showing the respective individual interests in Ordinary Shares of the Concert Party Members and Gartmore, on completion of the Proposals, is set out in paragraph 6 above.

As noted above, ordinarily the Placing and, in the case of the Concert Party, the grant of Incentive Options to Jonathan Carroll and Jack Fraser, would trigger respective obligations on the Concert Party Members and Gartmore to make a general offer to the Shareholders pursuant to Rule 9 of the Takeover Code. The Takeover Panel has agreed, however, to waive the obligations to make a general offer, subject to each such waiver being approved by the Independent Shareholders. Accordingly Resolution 1 is being proposed at the General Meeting and will be taken on a poll by the Independent Shareholders.

Following completion of the Placing, the Concert Party Members (between them) and Gartmore will each be interested in Ordinary Shares carrying more than 30 per cent. of the Company's voting share capital but neither the Concert Party Members (between them) nor Gartmore will hold Ordinary Shares carrying more than 50 per cent. of such voting rights and any further increase in the aggregate interest in Ordinary Shares held by either Gartmore or the Concert Party Members would, therefore, be subject to the provisions of Rule 9 of the Takeover Code.

11. Intentions of Concert Party

The Concert Party is taking part in the Placing to support its existing investment in the Company. Subject to the right of CanCo and NewCo, conditional on Admission, to appoint an additional director to the Board, further details of which are set out in paragraph 6 of Part 3, the Concert Party is not intending to seek any changes to the Board, and has confirmed that it would be its intention that, following the increase in its proportionate shareholding as a result of the participation in the Placing, the business of the Company would be continued in substantially the same manner as at present, with no major changes. It has no intentions regarding employment, the location of the Company's places of business or redeployment of the Company's fixed assets. The Concert Party is also not intending to prejudice the existing employment rights, including pension rights, of any of the

employees or management of the Group nor to procure any material change in the conditions of employment of any such employees or management.

12. Relationship Agreements

Each of CanCo and NewCo have entered into a relationship agreement with the Company, conditional on Admission, to ensure the Company carries on its business independently of each of CanCo and NewCo and that all transactions and relationships between each of CanCo and NewCo and the Company are at arm's length. Further details of the relationship agreements are provided in paragraph 6 of Part 3.

13. Intentions of Gartmore

Gartmore is taking part in the Placing to support its existing investment in the Company. Gartmore is not intending to seek any changes to the Board, and has confirmed that it would be its intention that, following the increase in its proportionate shareholding as a result of the participation in the Placing, the business of the Company would be continued in substantially the same manner as at present, with no major changes. It has no intentions regarding employment, the location of the Company's places of business or redeployment of the Company's fixed assets. Gartmore is also not intending to prejudice the existing employment rights, including pension rights, of any of the employees or management of the Group nor to procure any material change in the conditions of employment of any such employees or management.

14. Management Incentive Arrangement

The remuneration committee of the Board has approved a new Management Incentive Arrangement for Mark Molyneux, Jonathan Carroll and Jack Fraser as well as certain other senior employees of the Group to be selected by the remuneration committee of the Board (subject to Shareholder approval).

The Management Incentive Arrangement envisages the grant of a maximum of 20,733,730 Incentive Options (representing 12.5 per cent. of the Enlarged Issued Share Capital of the Company following the Placing and the issue of Ordinary Shares on exercise of the Incentive Options). The Incentive Options will have an exercise price of no less than 5 pence per Ordinary Share. They will only vest in the event of a sale of the entire issued share capital of the Company, for an amount valuing the Company at at least 15 pence per Ordinary Share. Incentive Options will be granted under the EMI Scheme where possible but will otherwise be on similar terms to options granted under the Unapproved Share Option Scheme. Instead of granting Incentive Options, the remuneration committee of the Board may implement an arrangement that has the same commercial effect but is more tax-efficient for the recipients.

The Incentive Options will be granted in the following maximum amounts:

Mark Molyneux	over 4,146,746 Ordinary Shares
Jonathan Carroll	over 6,220,119 Ordinary Shares
Jack Fraser	over 6,220,119 Ordinary Shares
Senior Group employees	over 4,146,746 Ordinary Shares

Mark Molyneux, Jonathan Carroll and Jack Fraser have been asked by various large Shareholders to continue their current roles with the Company. Each of Mark Molyneux, Jonathan Carroll and Jack Fraser have indicated that, without a suitable long term incentive package in place, they would consider pursuing other opportunities.

The Management Incentive Arrangement is subject to Shareholder approval at the General Meeting. Mark Molyneux, a beneficiary of the proposed Management Incentive Arrangement, will not vote on the resolution to approve the Management Incentive Arrangement. In addition CanCo will not vote on the resolution to approve the Management Incentive Arrangement as Jonathan Carroll, a beneficiary of the proposed Management Incentive Arrangement, is indirectly interested in the share capital of CanCo. Gartmore has confirmed to the Company that a condition of its involvement in the Placing is the continued involvement of management, so the Placing is conditional on the Management Incentive Arrangement being approved.

15. Banking Facilities

The Company announced today that it has renegotiated its current Debt Facility with Barclays. Under the terms of the Amended Facility Agreement, among other things the repayment profile and

agreed covenant levels have been changed in favour of the Company, the margin has been increased and certain additional fees have been imposed. Further details of the Amended Facility Agreement are contained in paragraph 6 of Part 3. The Amended Facility Agreement is conditional upon Admission and upon the deposit, as a security pledge, of £2 million of the proceeds of the Placing with Barclays.

16. General Meeting

A notice is set out at the end of this document convening the General Meeting to be held at 10 a.m. on 28 August 2009 at 3 Noble Street, London EC2V 7EE at which the Resolutions will be proposed. Resolutions 1 to 4 inclusive are to be proposed as ordinary resolutions, whilst Resolutions 5 and 6 are to be proposed as special resolutions.

16.1 Resolution 1 – Rule 9 Waivers

Resolution 1 seeks Independent Shareholder approval of the Rule 9 Waivers referred to in paragraph 10 of this Part 1. In accordance with the requirements of the Takeover Panel for granting the Rule 9 Waivers, Resolution 1 will be taken on a poll of Independent Shareholders.

16.2 Resolution 2 – Authority to increase the Company's authorised share capital

The Company has insufficient authorised but unissued share capital to issue the New Ordinary Shares under the Placing. For this reason, Resolution 2 seeks Shareholder approval to increase the authorised share capital of the Company from £1,200,000 to £5,200,000 representing an increase of 200,000,000 Ordinary Shares having the same rights and ranking *pari passu* with the existing Ordinary Shares.

16.3 Resolution 3 and Resolution 5 – Authority to allot Ordinary Shares on a non pre-emptive basis

There is no existing Shareholder authority authorising the allotment of Ordinary Shares and/or for disapplication of pre-emption rights which would be required to permit the non pre-emptive issue of any Ordinary Shares. Consequently the issue of the New Ordinary Shares is subject to Shareholder approval disapplying pre-emption rights. Resolution 3 and Resolution 5 authorise the Directors to allot Ordinary Shares under the terms of the Placing, and in connection with the exercise of Options and Warrants and pursuant to the Management Incentive Arrangement.

16.4 Resolution 4 – Approval of Management Incentive Arrangement

The Company proposes the adoption of the Management Incentive Arrangement, which would authorise the grant of Incentive Options to Mark Molyneux, Jonathan Carroll, Jack Fraser and certain other senior employees of the Group. Resolution 4 seeks Shareholder approval of the Management Incentive Arrangement and the grant of Incentive Options over a maximum of 20,733,730 Ordinary Shares. Further details of the Management Incentive Arrangement are set out in paragraph 14 of this Part 1.

16.5 Resolution 6 – Adoption of new articles of association

The Company is also seeking to adopt new articles of association in substitution for its existing articles of association primarily to take account of changes in English company law brought about by the 2006 Act. A description of the key differences between the existing articles of association and the new articles of association is set out in paragraph 9 of Part 3. The proposed new articles of association are available for inspection, as noted at note 15 of the Notice of General Meeting.

17. Additional Information

Your attention is drawn to the additional information set out in Part 3 of this document.

18. Action to be Taken

A Form of Proxy for use at the General Meeting is enclosed. Whether or not you intend to be present at the General Meeting, you are requested to complete, sign and return the personalised reply-paid Form of Proxy, to Share Registrars Limited by post, or by hand (during normal business hours only) to Share Registrars Limited, at Suite E, First Floor, 9 Lion & Lamb Yard, West Street, Farnham, Surrey, GU9 7LL as soon as possible but in any event so as to be received no later than 10 a.m. on 26 August 2009. The completion and return of a Form of Proxy will not prevent you from attending the General Meeting and voting in person if you wish to do so.

19. Importance of the Resolutions

All of the Resolutions must be passed in order for the Placing to proceed and in order for the Amended Facility Agreement to become effective.

If the Placing does not proceed and the Amended Facility Agreement does not become effective, the Group will remain subject to the Debt Facility and the financial covenants and the capital repayment schedule therein. Those financial covenants are tested quarterly and, depending on the trading performance of the Group in the 12 month periods ending 31 July 2009 and 31 October 2009, the financial covenants tested as at those dates by reference to accounts required to be delivered within 30 days of those dates may or may not be satisfied. The Directors' can give no assurance that the covenants tested at 31 July 2009 will not be breached. A capital repayment of £2.0 million falls due under the terms of the Debt Facility on 30 November 2009 and the Directors believe that it is unlikely that the Group would have sufficient financial resources to make this capital repayment. Failure to make the capital repayment, or a breach of a financial covenant, would be an event of default under the Debt Facility, entitling Barclays to immediately demand repayment of all outstanding amounts, to cancel the Debt Facility and to enforce its rights under the guarantees and security provided in favour of Barclays by various members of the Group.

If the Placing does not complete and the Amended Facility Agreement does not become effective, the Group would need to try to renegotiate the Debt Facility or to obtain debt and/or equity financing from other sources in order to avoid an anticipated breach of the Debt Facility. The Directors consider it unlikely that the Group would be able to obtain debt and/or equity financing from other sources. Alternatively the Group could seek to reach agreement with Barclays to defer the next capital repayment under the Debt Facility, and if necessary to waive or relax the financial covenants.

In such circumstances, if the Group is unable to renegotiate the Debt Facility or obtain debt and/or equity financing from other sources, it would be required to find alternative methods of reducing its debt levels. While it is possible that an alternative solution may be available, the Directors believe this to be unlikely.

In light of this, the Directors believe that there is a material risk that the Group could, in such circumstances, face insolvency.

Accordingly, the Board believes that the Proposals are in the Shareholders' best interests and that it is very important that Shareholders vote in favour of the Resolutions so that the Placing can proceed.

20. Recommendation

The Independent Directors, having been so advised by Investec, believe that the Proposals are fair and reasonable and in the best interests of Shareholders and the Company. In providing advice to the Independent Directors, Investec has taken into account the Independent Directors' commercial assessments.

In light of the above, the Independent Directors recommend Shareholders to vote in favour of all the Resolutions as they have irrevocably undertaken to do in respect of their own shareholding which amounts to in aggregate 180,000 Ordinary Shares (representing 0.58 per cent. of the Issued Share Capital).

Yours faithfully

Peter Thomson
Non-executive Director

PART 2

FINANCIAL INFORMATION RELATING TO THE GROUP

A. Historical financial information relating to the Group

Introduction

The financial information included in Section A of this Part 2 does not constitute statutory accounts within the meaning of section 240 of the 1985 Act and has been extracted without material adjustment from the audited historical financial information for the financial years ended 31 October 2006 (as restated in the comparatives for the audited financial information for the year ended 31 October 2007) which have been prepared under UK GAAP, and 31 October 2007 and 31 October 2008 which have been prepared under IFRS.

The Company's auditors have issued unqualified audit opinions in respect of the financial statements for the Company for the financial years ended 31 October 2006, 31 October 2007 and 31 October 2008.

Copies of the full accounts have been included in the Annual Report and Accounts for each of the relevant years and these have been filed at the Registrar of Companies.

Consolidated income statement

		Year to 31 October 2006 £000	Year to 31 October 2007 £000	Year to 31 October 2008 £000
Total Transaction Value	Note 2	44,083	169,853	181,945
Revenue	Note 2	19,189	38,467	44,318
Cost of sales		(11,937)	(17,903)	(21,953)
Gross profit		7,252	20,564	22,365
Administrative expenses		(7,214)	(17,659)	(24,687)
Operating (loss)/profit		38	2,905	(2,322)
Analysed as:				
Underlying operating profit		38	3,758	5,140
Separately disclosed items	Note 3	—	(481)	(3,625)
Amortisation of intangible assets & goodwill impairment		—	(372)	(3,837)
		38	2,905	(2,322)
Finance income	Note 6	217	382	175
Finance costs	Note 6	(65)	(959)	(1,445)
(Loss)/profit on ordinary activities before taxation		190	2,328	(3,592)
Income tax expense	Note 7	(233)	(1,158)	(1,339)
(Loss)/profit for the period		(43)	1,170	(4,931)
Basic (loss)/profit earnings per share	Note 8	(0.42)p	4.83p	(17.19)p
Fully diluted earnings per share	Note 8	—	3.82p	—

Consolidated balance sheet

		31 October 2006 £000	31 October 2007 £000	31 October 2008 £000
ASSETS				
Non-current assets				
Intangible assets – goodwill	Note 9	36,106	38,754	41,987
Intangible assets – other	Note 10	—	1,684	3,435
Property, plant & equipment	Note 11	2,016	1,021	1,373
		<u>38,122</u>	<u>41,459</u>	<u>46,795</u>
Current assets				
Inventories		2	2	33
Tax assets	Note 14	—	27	—
Trade and other receivables	Note 12	3,496	7,050	7,665
Derivative financial instruments	Note 13	—	295	52
Cash and cash equivalents		10,989	10,480	5,077
		<u>14,487</u>	<u>17,854</u>	<u>12,827</u>
Total assets		<u><u>52,609</u></u>	<u><u>59,313</u></u>	<u><u>59,622</u></u>
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	Note 15	313	350	407
Share premium	Note 15	11,632	14,233	16,779
Exchangeable shares	Note 15	10,003	10,365	12,735
Merger reserve	Note 15	2,320	2,320	2,320
Translation and hedge reserve	Note 15	—	250	(1,985)
Retained earnings	Note 15	1,516	3,386	(291)
Total equity		<u>25,784</u>	<u>30,904</u>	<u>29,965</u>
Non-current liabilities				
Trade and other payables	Note 18	6,587	4,976	41
Borrowings	Note 17	11,611	9,860	14,349
Deferred tax	Note 14	250	—	776
		<u>18,448</u>	<u>14,836</u>	<u>15,166</u>
Current liabilities				
Trade and other payables	Note 18	5,129	8,832	10,745
Borrowings	Note 17	1,130	1,870	1,500
Derivative financial instruments	Note 19	—	45	871
Current tax liabilities	Note 18	394	1,230	—
Revenue received in advance	Note 18	1,724	1,596	1,375
		<u>8,377</u>	<u>13,573</u>	<u>14,491</u>
Total liabilities		<u><u>26,825</u></u>	<u><u>28,409</u></u>	<u><u>29,657</u></u>
Total equity and liabilities		<u><u>52,609</u></u>	<u><u>59,313</u></u>	<u><u>59,622</u></u>

Consolidated cash flow statement

		31 October 2006 £000	31 October 2007 £000	31 October 2008 £000
Cash flows from operating activities				
Cash generated from operations	Note 24	1,520	2,477	(2,311)
Income taxes paid		(323)	(236)	(1,767)
Net cash flow from operating activities		<u>1,197</u>	<u>2,241</u>	<u>(4,078)</u>
Cash flow from investing activities				
Interest received		217	382	175
Acquisition of subsidiary		(13,732)	(2,739)	(5,473)
Purchase of property, plant & equipment & other intangibles		(409)	(1,069)	(1,211)
Net cash used in investing activities		<u>(13,924)</u>	<u>(3,426)</u>	<u>(6,509)</u>
Cash flow used in financing activities				
Repayment of borrowings		—	(250)	(11,881)
Interest paid		(65)	(959)	(1,042)
New bank loans raised		10,741	—	16,000
Proceeds on issue of shares		7,317	1,537	1,855
Net cash from financing activities		<u>17,993</u>	<u>328</u>	<u>4,932</u>
Net decrease in cash and cash equivalents		<u>5,266</u>	<u>(857)</u>	<u>(5,655)</u>
Cash and cash equivalents				
Cash and cash equivalents at beginning of year		5,753	10,989	10,480
Effect of foreign exchange rate changes		(30)	348	252
Net movement in cash and cash equivalents		5,266	(857)	(5,655)
Cash and cash equivalents at end of period		<u>10,989</u>	<u>10,480</u>	<u>5,077</u>
Cash and cash equivalents comprise:				
Cash		10,989	10,480	5,077
Overdrafts		—	—	—
		<u>10,989</u>	<u>10,480</u>	<u>5,077</u>

Statement of recognised income and expenses

	31 October 2006 £000	31 October 2007 £000	31 October 2008 £000
Exchange difference on translating of foreign operations.	42	358	(1,416)
Movement in fair value hedge	—	—	(819)
Income and expenses directly recognised in equity	42	358	(2,235)
Group (loss)/profit	(43)	1,170	(4,931)
Total income and expenses recognised in the financial year	(1)	1,528	(7,166)

NOTES (forming part of the financial statements)

Principal accounting policies

Basis of preparation

Statement of Preparation

2007 and 2008 consolidated financial statements are presented 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.

2006 consolidated financial statements are prepared in accordance with UK GAAP.

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 reliability.

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. 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.

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, in 2007, 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 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 of 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 below and cash and cash equivalents are accounted for in accordance with the group policy outlined 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 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 reliability. 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 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 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 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 was 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 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 100% is acquired. These changes will be effective for a business purchased after the 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.

1. Transition to international financial reporting standards (IFRS)

The transition from United Kingdom GAAP to IFRS has been made in 2007 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 re-measurement 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
At 1 November 2006		
Total equity – UK GAAP		25,784
Prepayments	1.1	(93)
Corporation tax		(46)
Total equity – IFRS		<u>25,645</u>
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		<u>30,904</u>

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

	Effects of Transition £000
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	<u>1,170</u>

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 to 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 £1.9m 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 to 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.

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:

	2006	2007	2008
	£000	£000	£000
Total transaction value			
Tour operations	15,631	18,518	21,341
Travel agency:			
Direct sales	349	127	—
Agency sales	28,103	151,208	160,604
	<u>44,083</u>	<u>169,853</u>	<u>181,945</u>

Primary reporting format – business segments

	Tour Operator			Travel Agency			Total		
	Year to 31 October			Year to 31 October			Year to 31 October		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
	£000	£000	£000	£000	£000	£000	£000	£000s	£000
Revenue	15,631	18,518	21,341	3,558	19,949	22,977	19,189	38,467	44,318
Results									
Profit from operations	(104)	487	807	142	3,269	4,333	38	3,756	5,140
Separately disclosed items	—	—	—	—	—	—	—	(853)	(7,462)
Disposals of property, plant & equipment	—	—	—	—	—	—	—	2	—
(Loss)/profit before finance items							38	2,905	(2,322)
Finance income							217	382	175
Finance costs							(65)	(959)	(1,445)
(Loss)/Profit before tax							190	2,328	(3,592)
Tax							(233)	(1,158)	(1,339)
(Loss)/Profit for year							(43)	1,170	(4,931)

Secondary reporting format – geographical location

Location	Revenue			Segment assets		
	Year to	Year to	Year to	Year to	Year to	Year to
	31-Oct	31-Oct	31-Oct	31-Oct	31-Oct	31-Oct
	2006	2007	2008	2006	2007	2008
	£000	£000	£000	£000	£000	£000
United Kingdom	18,658	25,901	27,960	48,931	46,297	42,950
Canada	531	12,566	16,358	3,678	13,016	16,672
Group	19,189	38,467	44,318	52,609	59,313	59,622

3. Operating (loss)/profit

Operating loss is stated after charging:

	2006	2007	2008
	£000	£000	£000
Depreciation of owned fixed assets	148	516	229
Amortisation of goodwill (UK GAAP only)	459	—	—
Net loss on foreign currency translation	4	358	252
<i>Auditor's remuneration – Group:</i>			
Audit fees	74	115	125
Taxation	12	15	17
<i>Auditor's remuneration – Company:</i>			
Audit fees	5	18	23
Taxation	2	3	4
<i>Operating lease costs:</i>			
Office equipment	44	—	308
Vehicles	14	26	—
Property	189	100	523
<i>Separately disclosed items:</i>			
Amortisation of intangible fixed assets	—	372	637
Termination of rights under warrant agreement	—	—	956
Share-based payment charge	—	481	298
Aborted acquisition costs	—	—	316
IT travel 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
	<u>3,576</u>	<u>9,479</u>	<u>11,939</u>

4. Personnel costs

The aggregate payroll costs were:

	2006	2007	2008
	£000	£000	£000
Salaries	2,997	8,342	9,452
Social security costs	286	524	1,072
Share based payments	214	481	1,254
Value of company pension contributions to money purchase schemes	79	132	161
	<u>3,576</u>	<u>9,479</u>	<u>11,939</u>

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

	2006	2007	2008
	No.	No.	No.
Administrative staff	48	129	174
Sales staff	78	179	156
	<u>126</u>	<u>308</u>	<u>330</u>

5. Directors

Remuneration of the directors was:

	2006	2007	2008
	£000	£000	£000
Emoluments receivable	501	1,232	1,572
Value of company pension contributions to money purchase schemes	28	70	81
	<u>529</u>	<u>1,302</u>	<u>1,653</u>

Two directors (2007 and 2006: two) participated in money purchase pension schemes. Included in the above are emoluments, excluding pension contributions paid to:

	2006	2007	2008
	£000	£000	£000
Highest paid director	372	499	562

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

	2006	2007	2008
	£000	£000	£000
Highest paid director	21	41	45

In accordance with IFRS 2 Share-based payments directors also received share based payments amounting to £1,145,000 (2007: £394,000) (2006: £113,000). Included in this amount are share based payments to the highest paid director of £981,000 (2007: £230,000) (2006: £26,000). 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) (2006: Nil) exercised their share options.

6. Finance income/(expenses)

	2006	2007	2008
	£000	£000	£000
Interest income	217	382	175
Interest expenses	(65)	(959)	(1,042)
Expenses from interest hedges	—	—	(403)
	<u>152</u>	<u>(577)</u>	<u>(1,270)</u>

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

7. Income tax expense

Tax expense comprises:

	2006 £000	2007 £000	2008 £000
Current income taxes:			
UK Corporation Tax	185	307	—
Overseas taxation	69	1,178	584
Adjustments to prior years	27	(300)	451
Deferred tax – share options	(48)	(27)	203
Deferred tax – ACAs	—	—	101
	<hr/>	<hr/>	<hr/>
Tax on loss on ordinary activities	233	1,158	1,339
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Reconciliation from expected to actual income tax expense:

	2006 £000	2007 £000	2008 £000
(Loss)/profit on ordinary activities before taxation	190	2,328	(3,592)
Expected income tax expense			
(Corporation Tax rate 28%, 2007 30%, 2006 30%)	57	698	(1,006)
Amortisation and impairment	138	287	623
Expenses not deductible	64	268	437
Depreciation in excess of capital allowances	57	(25)	101
Share options	—	—	203
Effective tax expenses and income relating to other periods	27	(300)	451
Losses carried forward	(29)	152	513
Rates differences	(33)	78	17
	<hr/>	<hr/>	<hr/>
Actual income tax expense	281	1,158	1,339
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All deferred tax has been recognised in the income statement.

8. Earnings/Loss per share

Basic loss per share of 17.19p (2007: 4.83p) (2006: 0.42p loss) is based on an equity loss of £4,931,000 (2007 – profit of £1,170,000 (restated), 2006 – loss of £43,000) and 28,686,523 (2007 – 24,231,242) (2006 – 10,282,082) 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) (2006: 1.35p) 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) (2006: £Nil), share based payments of £956,000 (2007: £Nil) and other separately disclosed items of £2,371,000 (2007: £Nil) (2006: £235,000).

The diluted earnings per share in 2007 was based on average fully diluted share capital of 30,626,763 (2006: 13,312,212).

9. Goodwill

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

Additions in 2008 primarily relate to the acquisition of The Cruise Professionals Ltd (£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 following the level at which the Group's management measures returns on operations.

Goodwill is allocated to the following cash-generating units:

	Goodwill £000
Best of Morocco Limited	1,923
Peng Travel Limited	1,263
Fair's Fare Limited	5,451
Tapestry Collection Limited	274
Itravel2000	23,969
WOW House Limited	167
Captivating Cuba Limited	1,290
JMB Travel Consultants	295
The Cruise Professionals Limited	6,555
	<hr/> <hr/>

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 have 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 businesses current profits are 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 a greater growth rate of 10% is more appropriate based on increased product, travel agent sales, re-branding of the website and a re-pricing 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 £2.1m 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 was increased by 1% this would have resulted in a further impairment loss of £100,000 in regard to Holiday Express only.

10. Intangible fixed assets

	Other intangible assets £000	Website development £000	Computer software £000	Total £000
Historical cost				
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	<u>1,782</u>	<u>1,638</u>	<u>1,785</u>	<u>5,205</u>
Amortisation				
At 1 November 2007 (restated)	—	773	762	1,535
Charge for year	125	219	293	637
Disposals	—	(184)	(217)	(401)
At 31 October 2008	<u>125</u>	<u>808</u>	<u>838</u>	<u>1,770</u>
Carrying amount at 31 October 2007	<u>—</u>	<u>891</u>	<u>793</u>	<u>1,684</u>
Carrying amount at 31 October 2008	<u>1,657</u>	<u>830</u>	<u>947</u>	<u>3,435</u>

Other intangible assets relate to the separately identifiable assets determined from the acquisition of The Cruise Professionals and relate 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 £000	Fixtures & fittings £000	Computer equipment £000	Office Equipment £000	Motor Vehicles £000	Total £000
Cost						
At 1 November 2006	125	701	3,037	586	27	4,476
Additions	—	4	1,034	64	—	1,102
Foreign exchange adjustments	4	13	107	(24)	—	100
IFRS adjustment	(3)	(718)	(2,751)	519	—	(2,953)
At 31 October 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	486	1,488	424	10	2,460
Charge for year	24	83	374	49	17	547
Foreign exchange adjustments	(2)	(7)	(48)	(7)	(64)	
IFRS adjustment	(3)	(562)	(1,030)	356	—	(1,239)
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 2006 (UK GAAP)	73	215	1,549	126	17	2,016
At 31 October 2007	55	—	643	323	—	1,021
At 31 October 2008	618	27	579	149	—	1,373

During the transition from UK GAAP to IFRS, website development costs and related computer software held within computer equipment with the carrying value of £933,000 were reclassified as intangible assets in accordance with IAS38. IFRS adjustments are shown as the balancing figures, required to reconcile the closing position under UK GAAP to the opening one stated under IFRS.

12. Trade and other receivables

	The Group		
	2006	2007	2008
	£000	£000	£000
Trade accounts receivable	1,935	4,074	3,873
Other receivables	846	2,976	2,377
Prepayment and accrued income	715	—	1,415
	<u>3,496</u>	<u>7,050</u>	<u>7,665</u>

There are no overdue amounts included in the values above.

13. Derivative financial instruments

	The Group		
	2006	2007	2008
	£000	£000	£000
Assets from derivative financial instruments	—	295	52

Derivative financial instruments, all with a remaining term of less than 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		
	2006	2007	2008
	£000	£000	£000
Deferred tax brought forward	—	250	27
Recognised in business combinations	—	—	(499)
Decrease in provision	(250)	(223)	(304)
	<u>(250)</u>	<u>27</u>	<u>(776)</u>

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

	The Group		
	2006	2007	2008
	£000	£000	£000
Excess of taxation allowances over depreciation on plant and equipment	—	395	(277)
Recognised in business combinations	—	—	(499)
Provisions	(250)	(368)	—
	<u>(250)</u>	<u>27</u>	<u>(776)</u>

15. Group equity

Authorised share capital:

	2006	2007	2008
	£000	£000	£000
59,550,000 ordinary shares of £0.02 each	1,191	1,191	1,191
450,000 deferred shares of £0.02 each	9	9	9

Issues, called up and fully paid:

	2006		2007		2008	
	No.	£000	No.	£000	No.	£000
Ordinary shares of £0.02 each	15,670,784	313	17,489,274	350	20,393,496	407

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 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

	2006		2007		2008	
	No.	£000	No.	£000	No.	£000
Exchangeable shares	7,938,780	10,003	8,065,327	10,365	10,572,614	12,735

0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc, issued 7,938,780 exchangeable shares on 13 October 2006 as part consideration for the acquisition of itravel2000.com at £1.26 per share. These shares are required to be exchanged on a one for one basis for ordinary 2p shares in Travelzest within five years of completion of the acquisition (13th October 2006). The exchange of the shares is not dependent on any other external factors.

0763756 BC Limited issued a further 126,547 exchangeable shares on 10 January 2007 as further part consideration of itravel2000.com at £1.26 per share. Included with the 2007 value is £200,000 exchange difference arising on translation.

0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc, issued 2,507,287 exchangeable shares on 13 February 2008 as part deferred consideration for the acquisition of itravel2000 at 94.5p per share. These shares are to be exchanged on a one for one basis for ordinary 2p shares in Travelzest within 5 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 & Exchangeable Shares £000	Translation & Hedge £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total Equity £000
At 1 November 2005	162	—	4,442	799	1,303	6,706
Profit for the year	—	—	—	—	171	171
Issue of shares	151	—	—	—	—	151
Issue of exchangeable shares	10,003	—	—	—	—	10,003
Premium on shares issued	—	—	7,190	—	—	7,190
Merger relief on issue of new shares	—	—	—	1,521	—	1,521
Exchange difference arising on consolidation	—	—	—	—	42	42
FRS adjustment	—	—	—	—	(139)	(139)
At 31 October 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 31 October 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

The profit and loss account, as at 1 November 2006, presented under UK GAAP and totaling £1,516,000 was restated under FRS to the £1,377,000 shown above in the 2008 financial statements.

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 3 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:

	2006		2007		2008	
	Number of share options 000's	Weighted average exercise price	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	113	133p	696	128p	1,320	136p
Granted during the year	583	127p	624	144p	10	105p
Outstanding at the end of the year	<u>696</u>	<u>128p</u>	<u>1,320</u>	<u>136p</u>	<u>1,330</u>	<u>121p</u>
Exercisable after more than 1 year	696	128p	1,320	136p	1,330	121p

The options outstanding at 31 October 2008 had a weighted average exercise price of £1.21 and a weighted average contractual life of 9 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, £480,627 and £214,343 related to equity-settled share-based payment transactions in 2008, 2007 and 2006 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 3 and 10 years of the date of grant.

Warrants

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

	2006		2007		2008	
	Number of share warrants 000's	Weighted average exercise price	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	2,150	133p	5,219	135p	5,247	140p
Granted during the year	3,069	128p	28	141p	—	—
Outstanding at the end of the year	<u>5,219</u>	<u>135p</u>	<u>5,247</u>	<u>140p</u>	<u>5,247</u>	<u>140p</u>
Exercisable after more than 1 year	5,219	135p	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 9 years. The Placing rights attached to each warrant in issue must be exercised within 10 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 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) (2006: £Nil).

17. Financial liabilities

Group	31 October 2006			31 October 2007			31 October 2008		
	< 1 year £000	1 – 5 years £000	Total £000	< 1 year £000	1 – 5 years £000	Total £000	< 1 year £000	1 – 5 years £000	Total £000
Liabilities to banks	250	10,491	10,741	750	9,860	10,610	1,500	14,349	15,849
Loan notes	880	1,120	2,000	1,120	—	1,120	—	—	—
	<u>1,130</u>	<u>11,611</u>	<u>12,741</u>	<u>1,870</u>	<u>9,860</u>	<u>11,730</u>	<u>1,500</u>	<u>14,349</u>	<u>15,849</u>

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 2008, 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.

The loan notes of £2,000,000 issued during 2006, relate to deferred consideration of the acquisition of Fair's Fare Limited in 2006.

18. Trade and other payables

	31 October 2006			31 October 2007			31 October 2008		
	< 1 year £000	1 – 5 years £000	Total £000	< 1 year £000	1 – 5 years £000	Total £000	< 1 year £000	1 – 5 years £000	Total £000
To third parties	2,315	—	2,315	4,380	—	4,380	3,213	—	3,213
Liabilities to relating to social security and other taxes	187	—	187	131	—	131	54	—	54
Advance payments received	1,724	94	1,818	1,596	—	1,596	1,375	—	1,375
Other liabilities	2,073	309	2,382	4,280	315	4,595	6,527	41	6,568
Deferred consideration	741	6,184	6,925	41	4,661	4,702	951	—	951
	<u>7,040</u>	<u>6,587</u>	<u>13,627</u>	<u>10,428</u>	<u>4,976</u>	<u>15,404</u>	<u>12,120</u>	<u>41</u>	<u>12,161</u>
Other liabilities relating to income tax	207	—	207	1,230	—	1,230	—	—	—
Deferred tax	—	250	250	—	—	—	—	776	776
	<u>7,247</u>	<u>6,837</u>	<u>14,084</u>	<u>11,658</u>	<u>4,976</u>	<u>16,634</u>	<u>12,120</u>	<u>817</u>	<u>12,937</u>

19. Derivative financial instruments

	The Group		
	2006 £000	2007 £000	2008 £000
Liabilities from derivative financial instruments	—	45	871

Derivative financial instruments, all with a remaining term of less than 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 have 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 of each year, the Group's total operating lease payments are as set out below.

The Group	2006		2007		2008	
	Land and buildings £000	Other items £000	Land and buildings £000	Other items £000	Land and Buildings £000	Other items £000
Operating leases when payable:						
Within 1 year	34	5	580	263	472	218
Within 2 to 5 years	244	106	1,492	526	1,808	834
After more than 5 years	—	3	332	—	2,489	39
	<u>278</u>	<u>114</u>	<u>2,404</u>	<u>789</u>	<u>4,769</u>	<u>1,091</u>

22. Other financial commitments

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

	2006 £000	2007 £000	2008 £000
Website development	<u>—</u>	<u>71</u>	<u>210</u>

23. Related party transactions

During 2008 Holiday Express (UK) Limited sold holidays to C G McKinlay and N Robb amounting to £8,295 (2007: £12,983) (2006: £Nil). All of the transactions were on normal commercial terms and an arm's length basis.

During 2008, 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) (2006: £nil); the balance outstanding at the year-end was £nil (2007: £nil) (2006:£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) (£2006 £nil); the balance outstanding at the year-end was £5,450 (2007: £nil) (2006: £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

	2006	The Group 2007 Restated	2008
	£000	£000	£000
Operating (loss)/profit	38	2,905	(2,322)
Amortisation and impairment	459	372	2,737
Depreciation	148	547	229
Loss on disposal of property, plant and equipment	—	2	—
(Increase)/decrease in inventories	1	(1)	(31)
Change in operating receivables	(571)	(3,141)	(623)
Share based payments	214	481	1,254
Change in operating payables	1,231	1,312	(3,555)
	<u>1,520</u>	<u>2,477</u>	<u>(2,311)</u>

25. Acquisitions

The Company acquired the 100% equity in the following companies during the period:

Company	Date	Business segment
The Cruise Professionals Limited	19 June 2008	Travel Agency
JMB Travel Consultants Limited	10 September 2007	Tour Operations
Captivating Cuba Limited	9 August 2007	Tour Operations
Wow House Limited	19 December 2006	Tour Operations
Tapestry Collection Limited	8 November 2006	Tour Operations
4358736 Canada Inc. (trading as iTravel2000.com)	13 October 2006	Travel Agency
The Montpelier Collection Limited (holding company of Fair's Fare Limited)	9 June 2006	Travel Agency
Peng Travel Limited	5 May 2006	Tour Operations
Best of Morocco Limited	30 November 2005	Tour Operations

The post acquisition results of 2006 are as follows:

	Best of Morocco £000	Peng Travel £000	Fair's Fare £000	iTravel 2000.com £000	Total £000
Total transaction value	<u>2,222</u>	<u>1,727</u>	<u>7,222</u>	<u>6,756</u>	<u>17,936</u>
Turnover	2,222	1,669	953	531	5,375
Cost of sales	<u>(1,571)</u>	<u>(1,347)</u>	<u>—</u>	<u>(1)</u>	<u>(2,919)</u>
Gross profit	651	322	953	530	2,456
Administrative expenses	<u>(334)</u>	<u>(145)</u>	<u>(537)</u>	<u>(238)</u>	<u>(1,254)</u>
Operating profit (before amortisation)	<u>317</u>	<u>177</u>	<u>416</u>	<u>292</u>	<u>1,202</u>

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

The post acquisition results of 2007 are as follows:

	Tapestry Collection £000	Wow House £000	Captivating Cuba £000	JMB Consultants £000	Total £000
Total transaction value	1,589	60	611	23	2,283
Turnover	1,589	60	611	23	2,283
Cost of sales	(1,143)	—	(525)	(18)	(1,686)
Gross profit	446	60	86	5	597
Administrative expenses	(418)	(208)	(229)	(18)	(873)
Operating profit (before amortisation)	28	(148)	(143)	(13)	(276)

	Tapestry Collection £000	Wow House £000	Captivating Cuba £000	JMB Consultants £000	Total £000
Net assets acquired:					
Property, plant and equipment	—	31	—	2	33
Trade and other receivables	—	10	1,262	11	1,283
Cash at bank and in hand	255	—	340	526	1,121
Trade and other payables	—	(188)	(2,099)	(91)	(2,378)
Fair value	255	(147)	(497)	448	59
Goodwill	696	166	1,285	306	2,453
	951	19	788	754	2,512

The Cruise Professionals 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).

The post acquisition results of 2008 are as follows:

	Cruise Professionals £000
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:

	Cruise Professionals £000
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

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

The company settled £6,134,000 of the total consideration; a further £2,660,000 was settled via other group companies.

Deferred consideration outstanding

	2006 £000	2007 £000	2008 £000
At start of the period	2,262	6,925	4,702
Settled – cash	(640)	(700)	(1,686)
Settled – shares	(433)	(1,261)	(2,375)
Acquisitions in year	6,997	600	750
Reduction in deferred consideration of the Tapestry Collection (see note 9)	—	—	(436)
Reduction to consideration in JMB Travel Consultants Ltd	—	—	(13)
Reduction in deferred consideration in Fair's Fare Limited	—	(645)	
Exchange adjustment	(72)	(217)	9
Fair value adjustment	(1,189)	—	—
	6,925	4,702	951
Due within one year	741	41	951
Due after more than one year	6,184	4,661	

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.

26. Post balance sheet events

There have been no significant post balance sheet events since 31 October 2008 as at the date of signing of the October 2008 financial statements.

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:

	2006		2007		2008	
	Functional Currency of Operations		Functional Currency of Operations		Functional Currency of Operations	
	Sterling £000	Canadian Dollars CAD\$ 000	Sterling £000	Canadian Dollars CAD\$ 000	Sterling £000	Canadian Dollars CAD\$ 000
Cash at Bank and in Hand						
– Euros	280	—	54	—	1,017	—
– Canadian dollars	116	326	1,744	462	1,278	2,437
– US dollars	3	105	61	—	69	—
– Other currencies	7	—	—	—	19	—
Bank Loans						
– Canadian dollars	1,222	—	1,329	—	4,291	—

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.

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

	2006		2007		2008	
	Total sterling commitment £000	Fair value of forward element of contract £000	Total sterling commitment £000	Fair value of forward element of contract £000	Total sterling commitment £000	Fair value of forward element of contract £000
Euro	7,051	(80)	4,771	(32)	9,530	52
Canadian dollars	1,000	3	2,139	168	2,000	(74)
US dollars	227	(4)	162	(4)	375	(54)

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:

	2006		2007		2008	
	Average rate	Spot rate	Average rate	Spot rate	Average rate	Spot rate
Euro	1.4650	1.4928	1.4764	1.4321	1.3004	1.2634
Canadian dollars	2.0610	2.1295	2.1826	1.9701	1.9886	1.9926
US dollars	1.8102	1.8993	1.9833	2.0636	1.9444	1.6480

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:

	2006 £000	2007 £000	2008 £000
Trade accounts receivable	1,935	4,074	3,873
Other receivables	1,561	2,976	2,377
	3,496	7,050	6,250
Derivatives designated as fair value hedges:			
Derivatives financial instruments	—	295	52
	10,989	10,480	5,077

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

For the year ended 31 October 2006, this data was not analysed.

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 highly effective.

Currency risk

Under these assumptions, with a 10% strengthening of Sterling against all other currencies, loss after tax for 2008 would be reduced by £0.2m (2007: £0.3m) and equity would be increased by £2.8m (2007: £1.9m). A 10% weakening of Sterling against all other currencies would result in an increased loss after tax of £0.2m (2007: £0.2m) and a reduction in equity of £2.3m (2007: £1.6m).

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 £1.1m in 2008 (2007 £0.4m).

B. Interim results of the Group for the six months to 30 April 2009

Condensed consolidated income statement (unaudited)

	Notes	Six months ended 30 April		Year ended
		2009 £000	2008 £000	31 October 2008 £000
Continuing operations				
Total Transaction Value		108,754	90,158	181,945
Revenue	2	22,940	16,295	44,318
Cost of sales		(11,444)	(5,759)	(21,953)
Gross profit		11,496	10,536	22,365
Administrative expenses		(9,943)	(10,280)	(24,687)
Operating profit/(loss)		1,553	256	(2,322)
Analysed as:				
Underlying operating profit		2,648	1,887	5,140
Separately disclosed items	6	(533)	(1,345)	(3,625)
Amortisation of intangible assets		(562)	(286)	(3,837)
		1,553	256	(2,322)
Finance income		26	128	175
Finance costs		(709)	(474)	(1,445)
Profit/(loss) on ordinary activities before taxation		870	(90)	(3,592)
Income tax expense		(766)	(391)	(1,339)
Profit/(loss) for the period		104	(481)	(4,931)
Basic earnings/(loss) per share	3	0.36p	(1.77)p	(17.19)p
Fully diluted earnings per share		0.28p	—	—

Condensed consolidated statement of recognised income and expense (unaudited)

	Six months ended		Year ended
	30 April		31 October
	2009	2008	2008
	£000	£000	£000
Exchange differences on translation of foreign operations	(1,349)	342	(1,416)
Movement in fair value hedge	742	—	(819)
	<hr/>	<hr/>	<hr/>
Net income recognised directly in equity	(607)	342	(2,235)
Profit/(loss) for the period	104	(481)	(4,931)
	<hr/>	<hr/>	<hr/>
Total recognised income and expense for the period	<u>(503)</u>	<u>(139)</u>	<u>(7,166)</u>

Condensed consolidated balance sheet (unaudited)

		30 April		31 October	
	Notes	2009	2008	2008	2008
		£000	£000	£000	£000
ASSETS					
Non-current assets					
Intangible assets – goodwill		42,149	40,405	41,987	
Intangible assets – other		4,102	1,933	3,435	
Property, plant & equipment		1,213	980	1,373	
		<u>47,464</u>	<u>43,318</u>	<u>46,795</u>	
Current assets					
Inventories		44	2	33	
Tax assets		—	176	—	
Trade and other receivables		8,953	9,553	7,665	
Derivative financial instruments		809	848	52	
Cash and cash equivalents		3,789	5,818	5,077	
		<u>13,595</u>	<u>16,397</u>	<u>12,827</u>	
Total assets		<u><u>61,059</u></u>	<u><u>59,715</u></u>	<u><u>59,622</u></u>	
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	4	619	350	407	
Share premium	4	29,815	14,233	16,779	
Exchangeable shares	4	—	12,735	12,735	
Merger reserve	4	2,320	2,320	2,320	
Translation and hedge reserve	4	(2,592)	1,538	(1,985)	
Retained earnings	4	(257)	3,725	(291)	
Total equity		<u>29,905</u>	<u>34,901</u>	<u>29,965</u>	
Non-current liabilities					
Trade and other payables		—	808	41	
Borrowings		12,708	9,849	14,349	
Deferred tax liabilities		333	—	776	
		<u>13,041</u>	<u>10,657</u>	<u>15,166</u>	
Current liabilities					
Trade and other payables		9,746	7,784	10,745	
Borrowings		2,750	1,620	1,500	
Derivative financial instruments		886	—	871	
Current tax liabilities		1,142	303	—	
Revenue received in advance		3,589	4,450	1,375	
		<u>18,113</u>	<u>14,157</u>	<u>14,491</u>	
Total liabilities		<u><u>31,154</u></u>	<u><u>24,814</u></u>	<u><u>29,657</u></u>	
Total equity and liabilities		<u><u>61,059</u></u>	<u><u>59,715</u></u>	<u><u>59,622</u></u>	

Condensed consolidated cash flow statement (unaudited)

		Six months ended		<i>Year ended</i>
		30 April		31 October
		2009	2008	2008
	Notes	£000	£000	£000
Cash flows from operating activities				
Cash generated from operations	5	1,437	907	<i>(2,311)</i>
Income taxes paid		(68)	(1,466)	<i>(1,767)</i>
Net cash in from operating activities		<u>1,369</u>	<u>(559)</u>	<u><i>(4,078)</i></u>
Cash flow from investing activities				
Interest received		26	128	<i>175</i>
Acquisition of subsidiary		(164)	(3,397)	<i>(5,473)</i>
Purchase of property, plant & equipment & other intangibles		(709)	(452)	<i>(1,211)</i>
Net cash used in investing activities		<u>(847)</u>	<u>(3,721)</u>	<u><i>(6,509)</i></u>
Cash flow used in financing activities				
Repayment of borrowings		(1,000)	(250)	<i>(11,881)</i>
Interest paid		(681)	(474)	<i>(1,042)</i>
New bank loans raised		—	—	<i>16,000</i>
Proceeds on issue of shares		—	—	<i>1,855</i>
Net cash from financing activities		<u>(1,681)</u>	<u>(724)</u>	<u><i>4,932</i></u>
Net (decrease)/increase in cash and cash equivalents		<u>(1,159)</u>	<u>(5,004)</u>	<u><i>(5,655)</i></u>
Cash and cash equivalents				
Cash and cash equivalents at beginning of year		5,077	10,480	<i>10,480</i>
Effect of foreign exchange rate changes		(129)	342	<i>252</i>
Net movement in cash and cash equivalents		(1,159)	(5,004)	<i>(5,655)</i>
Cash and cash equivalents at end of period		<u>3,789</u>	<u>5,818</u>	<u><i>5,077</i></u>
Cash and cash equivalents comprise:				
Cash		3,789	5,818	<i>5,077</i>
Overdrafts		—	—	—
		<u>3,789</u>	<u>5,818</u>	<u><i>5,077</i></u>

Notes to the condensed interim financial statements

1 Basis of preparation

Statement of Preparation

These consolidated interim financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

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, and 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. Details of acquired assets and liabilities are given below.

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.

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.

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 are accounted for in accordance with the policy below and cash and cash equivalents are accounted for in accordance with the group policy outlined 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 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 reliability. 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 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 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 30 April 2009. 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.

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:

Primary segments – Business analysis

	Tour Operator			Travel Agency			Total		
	Six months ended		Year ended	Six months ended		Year ended	Six months ended		Year ended
	30 April		31 October	30 April		31 October	30 April		31 October
	2009	2008	2008	2009	2008	2008	2009	2008	2008
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	5,741	6,133	21,341	17,199	10,162	22,977	22,940	16,295	44,318
Results									
Profit from operations	(824)	(419)	807	3,472	2,306	4,333	2,648	1,887	5,140
Separately disclosed items							(1,095)	(1,631)	(7,462)
Profit/(loss) before finance items							1,553	256	(2,322)
Finance income							26	128	175
Finance costs							(709)	(474)	(1,445)
Profit/(loss) before tax							870	(90)	(3,592)
Tax							(766)	(391)	(1,339)
Profit for the year							104	(481)	(4,931)

Secondary segments – Geographical analysis

	Revenue			Segment assets		
	Six months to		Year ended	Six months to		Year ended
	30 April		31 October	30 April		31 October
	2009	2008	2008	2009	2008	2008
	£000	£000	£000	£000	£000	£000
United Kingdom	6,531	8,040	27,960	32,150	41,332	42,950
Canada	16,409	8,255	16,358	28,909	18,383	16,672
Group	22,940	16,295	44,318	61,059	59,715	59,622

3 Earnings per share

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown includes exchangeable shares.

	Six months to		Year ended
	30 April		31 October
	2009	2008	2008
	£000	£000	£000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of parent	104	(481)	4,931
Weighted average number of shares for basic earnings per share	28.7	27.2	28.7

4 Consolidated statement of changes in equity

	Share capital & exchangeable shares £000	Share premium £000	Merger reserve £000	Translation & hedge reserve £000	Retained earnings £000	Total £000
At 1 November 2008	13,142	16,779	2,320	(1,985)	(291)	29,965
Profit for the period	—	—	—	—	104	104
Issue of shares	212	13,036	—	—	—	13,248
Conversion of exchangeable shares	(12,735)	—	—	—	—	(12,735)
Hedging of transactions	—	—	—	742	—	742
Foreign exchange reserve	—	—	—	(1,349)	—	(1,349)
Share-based payments	—	—	—	—	(70)	(70)
At 30 April 2009	<u>619</u>	<u>29,815</u>	<u>2,320</u>	<u>(2,592)</u>	<u>(257)</u>	<u>29,905</u>

In accordance with the Exchange Rights Agreement dated 13 October 2006, the board of the Company announces that Travelzest Holdings Inc., a wholly-owned indirect subsidiary of Travelzest, has purchased the 10,572,614 Class A shares in 0763756 B.C. Limited from 6615716 Canada Inc. (CanCo). The shares are issued at 94.5p and 126p respectively.

5 Notes to the condensed cash flow statement

	Six months ended 30 April		Year ended 31 October
	2009 £000	2008 £000	2008 £000
Operating profit/(loss)	1,553	256	(2,322)
Adjustments for:			
Amortisation and impairment	562	286	2,737
Depreciation on property, plant and equipment	129	64	229
Share based payments	(70)	1,095	1,254
(Increase) in inventories	(11)	(2)	(31)
Change in operating receivables	(1,071)	(881)	(623)
Change in operating payable	345	89	(3,555)
Net cash flow from operating activities	<u>1,437</u>	<u>907</u>	<u>(2,311)</u>

6 Separately disclosed items

During the period the Group recognised a one-off cash charge amounting to £453,000 relating to non-recurring legal fees and salary costs. In addition it incurred a further £10,000 relating to the office relocation of Peng Travel and £140,000 relating to the closure and restructure of Faraway Holidays.

	Six months ended 30 April		Year ended 31 October
	2009	2008	2008
	£000	£000	£000
Analysed as:			
Termination of rights under warrant agreement	—	955	956
Share based payment charge	(70)	140	298
Aborted acquisition costs	—	250	316
Itravel move and other new project start up costs	—	—	693
Aborted takeover costs	—	—	125
Holiday Express non-recurring costs	—	—	1,237
Itravel non-recurring costs	310	—	—
Head office non-recurring costs	143	—	—
Peng office relocation	10	—	—
Faraway Holiday restructuring	140	—	—
	<u>533</u>	<u>1,345</u>	<u>3,625</u>
Total share based payment	<u>533</u>	<u>1,345</u>	<u>3,625</u>

In addition under IAS 38, Intangible Assets, the Group incurred a charge in the period of £562,000 in respect of intangible asset amortisation (2008: £286,000).

7 Derivative financial instruments

Derivative financial instruments, serving primarily to hedge future operative business, are detailed in the accounting policies on financial instruments. All hedges in the period have been 100% effective.

	Six months ended 30 April		Year ended 31 October
	2009	2008	2008
	£000	£000	£000
Analysed as:			
Assets arising from financial derivative instruments	809	848	52
	<u>809</u>	<u>848</u>	<u>52</u>
Liabilities arising from financial derivative instruments	886	—	871
	<u>886</u>	<u>—</u>	<u>871</u>

Derivative financial instruments, all with a remaining term of less than year, primarily serve to hedge future operative business. 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 £15,000 and a gain of Euro forward contracts of £757,000, all are 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.

PART 3

ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENTS

- 1.1 The Company and the Directors, whose names appear on page 7 of this document, accept responsibility for the information contained in this document, other than that relating to the Concert Party and Gartmore, (save that Jonathan Carroll, Mark Molyneux, Richard Hall and Jack Fraser do not accept responsibility for the recommendation set out in paragraph 20 of Part 1). To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 The Independent Directors accept responsibility for the recommendation set out in paragraph 20 of Part 1. To the best of the knowledge and belief of the Independent Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.3 NewCo and its directors accept responsibility for the information contained in this document relating to NewCo. To the best of the knowledge and belief of NewCo and its directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.4 CanCo and its directors, other than J. Brian Hewlitt, accept responsibility for the information contained in this document relating to CanCo. To the best of the knowledge and belief of CanCo and its directors other than J. Brian Hewlitt (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.5 Starline and its directors accept responsibility for the information contained in this document relating to Starline. To the best of the knowledge and belief of Starline and its directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.6 CanCo Holding and its directors, other than J. Brian Hewlitt, accept responsibility for the information contained in this document relating to CanCo Holding. To the best of the knowledge and belief of CanCo Holding and its directors other than J. Brian Hewlitt (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.7 Each beneficiary of the Ely Trust, other than J. Brian Hewlitt, (being Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, and Jeffrey D. MacKenzie) accepts responsibility for the information in this document relating to him or her and the Ely Trust. To the best of the knowledge and belief of each such beneficiary, other than J. Brian Hewlitt, (who have each taken reasonable care to ensure that such is the case) the information contained in this document for which each of them is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.8 J. Brian Hewlitt has not taken responsibility for the information contained in this document. J. Brian Hewlitt is not participating in the Placing. Any interest that J. Brian Hewlitt has in the Ely Trust is passive and he does not have any control over the activities of the Ely Trust.
- 1.9 Gartmore, Dominic Rossi (a director of Gartmore) and Robert Giles (in his capacity as manager of the Gartmore funds) accept responsibility for the information contained in this document relating to Gartmore. To the best of the knowledge and belief of Gartmore and Robert Giles (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. DIRECTORS' TERMS OF APPOINTMENT

2.1 The Directors, whose names appear on page 7 of this document, have been appointed to the offices and employments set out against their respective names. Their agreements with the Company are summarised below:

- (a) Consultancy agreement entered into by the Company and Richard Hall trading as Richard Hall Consultancy dated 24 August 2005. The consultancy agreement provides for annual fees of £14,000 in respect of Mr Hall's consultancy services to the Company and £10,000 in respect of his services as a non-executive director of the Company. The consultancy agreement is terminable by either party giving to the other not less than three months' written notice. The consultancy agreement provides that Mr Hall will spend an average of not less than 10 days per annum performing services as a non-executive director and an average of eight days per annum providing other services under the consultancy agreement. The consultancy agreement does not contain any post termination restraints save in respect of use of confidential information.
- (b) Letter of appointment between the Company and Peter Thomson dated 24 August 2005. Under the terms of the letter of appointment Mr Thomson has agreed to act as a non-executive director of the Company. The appointment is terminable by either party giving to the other not less than three months' notice. Mr Thomson is committed to attend at least six board meetings, at least one annual meeting of the non-executive directors of the Company, the Company's annual general meeting, the meetings of any committees to which he is appointed and ad hoc meetings of the Board at the request of the Company's chief executive. Mr Thomson's fee is £10,000 per annum payable in 12 equal monthly instalments less the appropriate PAYE, tax and national insurance contributions.
- (c) Letter of appointment between the Company and Mark Molyneux dated 22 September 2006. Under the terms of the letter of appointment Mr Molyneux has agreed to act as non-executive Chairman of the Company. The appointment is terminable by either party giving to the other not less than three months' notice. Mr Molyneux is committed to attending at least 12 board meetings, at least one annual meeting of the non-executive directors of the Company, the Company's annual general meeting, the meetings of any committees to which he is appointed and ad hoc meetings of the Board at the request of the Company's chief executive. Mr Molyneux's fee is £60,000 per annum payable in 12 equal monthly instalments less the appropriate PAYE, tax and national insurance contributions.
- (d) The Company entered into a service agreement with Jonathan Carroll on 4 August 2009 ("**Current Service Agreement**") under which he agreed to devote his whole working time and attention to his duties set out therein. Mr Carroll's annual salary is CAD\$500,000. The Current Service Agreement provides that an annual reconciliation will be made, and either party may be liable to compensate the other, to ensure that Mr Carroll is no worse or better off as regards tax than if he had worked and been taxed solely in Canada. Mr Carroll is entitled to participate in an annual bonus scheme pursuant to which he may earn up to 100 per cent. of his salary on such terms and subject to such conditions as may be decided from time to time by the remuneration committee of the Company. For the current bonus year (ending 31 October 2009), Mr Carroll will receive a bonus of £50,000. Mr Carroll is also entitled to an annual car allowance of CAD\$25,000. The Current Service Agreement entitles Mr Carroll to: (i) private worldwide medical expenses for himself and his spouse and any children under the age of 18; (ii) sickness, long term disability and death and survivor insurance; (iii) life insurance at a rate of three times salary; (iv) permanent health insurance and (v) directors, officers and professional insurance cover in respect of all directorships held by him within the Group. The Current Service Agreement is terminable by either party giving not less than 12 months' written notice to the other. If there is a change of control of the Company prior to 4 August 2011 and during that period Mr Carroll's employment is terminated for any reason other than in circumstances where the Company can terminate the Current Service Agreement without notice, his notice period will be the longer of: (i) the number of complete months until 4 August 2011; or (ii) 12 months. The Current Service Agreement contains standard non-solicit and non-compete provisions for a period of 12 months following termination of employment which shall be offset against any garden leave taken.

Prior to the Current Service Agreement Mr Carroll's employment was governed by a service agreement with itravel2000 dated 15 September 2006 (as amended by a letter dated 28 November 2007) ("**Prior Service Agreement**") under which he agreed to devote substantially all of his working time to the benefit of itravel2000 until the Prior Service Agreement was

terminated. His compensation was CAD\$400,000 per annum and an annual bonus of 50 per cent. of base salary. In addition, he was eligible to participate in itravel2000's bonus plan and benefit plans. Mr Carroll was reimbursed for expenses reasonably incurred in connection with the performance of his obligations. The Prior Service Agreement was terminable by (i) itravel2000 for cause, on payment of severance or if Mr Carroll had been absent from work due to a disability for an extended period; and (ii) Mr Carroll on not less than 12 months' written notice to itravel2000 or where itravel2000 had sought to alter his role or compensation that was not remedied by itravel2000 ("**Good Reason**"). If itravel2000 had terminated his employment, other than for cause or disability, or if Mr Carroll had terminated his employment for Good Reason, itravel2000 was obliged to pay him cash equal to 12 months' base salary plus an amount equal to 50 per cent. of base salary in lieu of any bonus. In consideration of this payment and the continuation of benefits provided, Mr Carroll was obliged to execute a general release in favour of itravel2000. In the event of termination other than for cause or his resignation, the Prior Service Agreement provided that Mr Carroll's participation in the benefit plans provided to him prior to such termination (excepting disability plans) would be continued, or equivalent benefits provided, by itravel2000 until the earlier of (a) 12 months following termination for reasons other than for cause; or (b) his death.

- (e) Service agreement entered into by the Company and Nishma Robb dated 1 April 2007. Ms Robb's annual salary is £141,750. The service agreement provides for a bonus of up to 50 per cent. of annual basic salary in cash or 100 per cent. of annual salary in share options subject to the satisfaction of annual targets set by the remuneration committee of the Company. The service agreement also contains the right to a car allowance of £8,000 per annum. The service agreement is terminable by either party giving to the other not less than six months' written notice. The Company can place Ms Robb on "garden leave" during the whole or any part of the notice period. The service agreement provides that Ms Robb will devote her whole working time and attention to her duties. It further provides that Ms Robb will not falsely represent herself as being in any way connected with or interested in the business of the Company after the termination of her employment with the Company.
- (f) The Company entered into a service agreement with Jack Fraser on 4 August 2009 ("**Current Service Agreement**") under which he agreed to devote his whole working time and attention to his duties set out therein. Mr Fraser's annual salary is CAD\$415,000. The agreement provides that an annual reconciliation will be made, and either party may be liable to compensate the other, to ensure that Mr Fraser is no worse or better off as regards tax than if he had worked and been taxed solely in Canada. Mr Fraser is entitled to participate in an annual bonus scheme pursuant to which he may earn up to 100 per cent. of his salary on such terms and subject to such conditions as may be decided from time to time by the remuneration committee of the Company. For the current bonus year (ending 31 October 2009), Mr Fraser will receive a bonus of £100,000. Pursuant to the terms of the Current Service Agreement, Mr Fraser is also entitled to a fully expensed BMW 5 Series (or similar company car) and sponsorship to undertake an Executive Masters of Business Administration. The agreement entitles Mr Fraser to (i) private worldwide medical expenses for himself and his spouse and any children under the age of 18; (ii) sickness, long term disability and death and survivor insurance; (iii) life insurance at a rate of three times salary; (iv) permanent health insurance and (v) directors, officers and professional insurance cover in respect of all directorships held by him within the Group. The agreement is terminable by either party giving not less than six months' written notice to the other. If there is a change of control of the Company prior to 4 August 2011 and during that period Mr Fraser's employment is terminated for any reason other than in circumstances where the Company can terminate the Current Service Agreement without notice, his notice period will be the longer of: (i) the number of complete months until 4 August 2011; or (ii) six months. The agreement contains standard non-solicit and non-compete provisions for a period of 12 months following termination of employment which shall be offset against any garden leave taken.

Prior to the Current Service Agreement Mr Fraser's employment was governed by a service agreement with itravel2000 dated 15 September 2006 (as amended) ("**Prior Service Agreement**") under which he agreed to devote substantially all of his working time to the benefit of itravel2000 until the Prior Service Agreement was terminated. He was compensated with a base annual salary of CAD\$250,000 and a bonus of 50 per cent. of base salary. In addition, he was eligible to participate in itravel2000's bonus plan and benefit plans. Mr Fraser was reimbursed for travel and other expenses reasonably incurred in connection with the performance of his

obligations under the Prior Service Agreement. The Prior Service Agreement was terminable by (i) ittravel2000 for cause, on payment of severance or if Mr Fraser has been absent from work due to a disability for an extended period; and (ii) Mr Fraser on not less than 12 months' written notice to ittravel2000 or where ittravel2000 had assigned him duties inconsistent with this position or such other diminution of authority, duties or compensation that was not remedied by ittravel2000 (“**Good Reason**”). If ittravel2000 had terminated his employment, other than for cause or disability, or if Mr Fraser had terminated his employment for Good Reason, ittravel2000 was obliged to pay him a lump sum of a cash amount equal to 12 months' base salary plus an amount equal to 50 per cent. of base salary in lieu of any bonus. In consideration of this payment and the continuation of benefits provided, Mr Fraser was obliged to execute a general release in favour of ittravel2000. In the event of termination other than for cause or his resignation, the Prior Service Agreement provided that Mr Fraser's participation in the benefit plans provided to him prior to such termination (excepting disability plans) would be continued, or equivalent benefits provided, by ittravel2000 until the earlier of (a) 12 months following termination for reasons other than for cause; or (b) his death.

- 2.2 Save as disclosed in this paragraph 2, there have been no replacements or amendments to the Directors' service contracts or letters of appointment during the six months prior to the date of this document.

3. INFORMATION ON CONCERT PARTY MEMBERS

- 3.1 The Concert Party consists of corporations, trusts and the Concert Party Beneficiaries. Details of the Concert Party Members are set out in paragraphs 3.2 and 3.3 below.

3.2 Information on the Concert Party trusts and corporations

CanCo

6615716 Canada Inc. is a non-trading holding company incorporated under the laws of Canada, whose registered office is at 2500 – 181 Bay Street, Toronto, Ontario, Canada. At the date of this document, CanCo holds 10,572,614 Ordinary Shares or approximately 34.1 per cent. of the Issued Share Capital. The only investment held by CanCo is the Ordinary Shares and, other than the investment in the Company, CanCo has no material assets or liabilities. The directors of CanCo are Shane G. Carroll, J. Brian Hewlitt, Jonathan Carroll, Edward J. Carroll and Jeffrey D. MacKenzie. The issued and outstanding share capital of CanCo is held by Starline.

Starline

Starline Project Services Limited is an investment company incorporated under the laws of the Isle of Man, whose registered office is at 29/31 Athol Street, Douglas, Isle of Man, British Isles. Starline's only asset is the issued and outstanding shares in the capital of CanCo. Starline has no material liabilities other than loans received from the Ely Trust. The directors of Starline are Francis Henry Perry, Bernard Michael Shimmin and Philip Richard Whittam. The issued and outstanding share capital of Starline is held by CanCo Holding.

CanCo Holding

6615635 Canada Inc. is a non-trading holding company (incorporated solely for holding shares in Starline), incorporated under the laws of Canada, whose registered office is at 2500 – 181 Bay Street, Toronto, Ontario, Canada. CanCo Holding's only material asset or liability is the investment in Starline. The issued and outstanding share capital of CanCo Holding is held by the Ely Trust. The directors of CanCo Holding are Shane G. Carroll, J. Brian Hewlitt, Jonathan Carroll, Edward J. Carroll and Jeffrey D. MacKenzie.

Ely Trust

The Ely Trust is a discretionary *inter vivos* trust settled on 17 October 1997. The Ely Trust holds all of the issued and outstanding shares in the capital of CanCo Holding. The only other investments held by Ely Trust are: (i) an equity investment in a quoted company, held through two wholly-owned private investment companies; and (ii) all of the issued and outstanding shares in a private company which holds real estate for personal use. The current trustee of the Ely Trust is Tower Trustees Limited, a corporation incorporated in Nevis and resident in St. Kitts and Nevis. The present beneficiaries of the Ely Trust are Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey D. MacKenzie and J. Brian Hewlitt.

NewCo

7198914 Canada, Inc. is a private company incorporated solely for the purposes of participation by various members of the Concert Party in the Placing. NewCo is a non-trading holding company incorporated under the laws of Canada, whose registered office is at 2500 – 181 Bay Street, Toronto, Ontario, Canada. As at the date of this document, NewCo holds no Ordinary Shares and has no material assets (other than the cash required to participate in the Placing) or material liabilities (other than the loan notes referred to in paragraph 8 of this Part 3). The directors of NewCo are Edward J. Carroll, Jonathan Carroll, Shane G. Carroll, Jack Fraser and Jeffrey D. MacKenzie, each of whom holds 20 per cent. of the outstanding share capital of NewCo and 20 per cent. of the issued loan notes in NewCo.

3.3 Information on the Concert Party Beneficiaries

Edward J. Carroll

Edward J. Carroll is Chief Executive Officer of itravel2000. He is a key representative of itravel2000 both internally to staff and externally in the industry and has played a critical role in negotiations of strategic agreements with suppliers and advertising groups with whom the company deals. Edward J. Carroll has a background in the banking industry in the United Kingdom and began working in the travel industry in 1969 when he founded Maple Leaf Tours Ltd. in Canada. Edward subsequently founded Chieftain Tours, which was sold to Worldways Canada in 1983, and became President of the European Division of Sunquest Vacations and a director of Sunquest (AirTours plc). Edward J. Carroll is a Canadian citizen, resident in Canada, and is the spouse of Elizabeth Carroll and the father of Shane G. Carroll and Jonathan Carroll.

Edward J. Carroll is a director of itravel2000, 6632912 Canada Inc., 6632947 Canada Inc., CanCo Holding, CanCo, 7098561 Canada Inc. and NewCo.

Elizabeth Carroll

Elizabeth Carroll is a Canadian citizen, resident in Canada, and is the spouse of Edward J. Carroll and the mother of Shane G. Carroll and Jonathan Carroll.

Shane G. Carroll

Shane G. Carroll is Chief Operating Officer of itravel2000. Prior to joining itravel2000 Shane G. Carroll developed an extensive wholesale product buying experience with Sunquest Vacations Limited. Subsequent to that, he was managing director of Chieftain Tours in Europe, where he was responsible for developing vacation packages and inclusive tours for the wholesale and direct-to-public retail markets. Shane G. Carroll is a Canadian citizen, resident in Canada, and is the son of Edward J. Carroll and Elizabeth Carroll and the brother of Jonathan Carroll.

Shane G. Carroll is a director of itravel2000, 6624251 Canada Inc., 6632947 Canada Inc., CanCo Holding, CanCo, 7098561 Canada Inc., NewCo and 2190320 Ontario Inc.

Jonathan Carroll

Jonathan is Group Chief Executive and co-founder of itravel2000. He is also a founding board member of the Lakefield College School Foundation. In 2005, Jonathan Carroll was awarded the prestigious Top 40 Under 40 Award honouring the best and most accomplished young professionals in Canada. Jonathan Carroll is a Canadian citizen, resident in Canada, and is the son of Edward J. Carroll and Elizabeth Carroll and the brother of Shane G. Carroll.

Jonathan Carroll is a director of itravel2000, 6624235 Canada Inc., 6632947 Canada Inc., CanCo Holding, CanCo, J Hotel Group Inc., 2084981 Ontario Inc., NewCo and The Cruise Professionals Limited.

Jeffrey D. MacKenzie

Jeffrey D. MacKenzie is Executive Vice President of Call Centre Operations of itravel2000, and a co-founder of itravel2000. Jeffrey D. MacKenzie manages all day-to-day activities of the call centre including offline sales, and offline and online customer service. Prior to joining itravel2000, Jeffrey D. MacKenzie was a licensed real estate agent practicing commercial industrial leasing and residential sales. Jeffrey D. MacKenzie is a graduate from George Brown College with a diploma in small business management. Jeffrey D. MacKenzie is a Canadian citizen, resident in Canada.

Jeffrey D. MacKenzie is a director of itravel2000, 6624243 Canada Inc., 6632947 Canada Inc., CanCo Holding, CanCo, 7098561 Canada Inc. and NewCo.

Jack Fraser

Jack Fraser was appointed as Group Finance Director on 12 May 2009 and subsequently on 30 June 2009 as Group Chief Operating Officer and Financial Director. Prior to this, he was Chief Financial Officer and Head of Corporate Development for itravel2000. Prior to joining itravel2000, Jack Fraser spent over 10 years in the financial markets with RBC Financial Group and BMO Financial Group. He also assisted two early stage internet startups in the United States and Canada in senior operations and corporate development roles. Jack Fraser is a Canadian citizen, resident in Canada.

Jack Fraser is a director of Your Quick Gateway (Windsor) Inc., itravel2000, 7098561 Canada Inc., NewCo, 2190320 Ontario Inc., 2149201 Ontario Inc., 0763756 B.C. Ltd., 1471206 Ontario Inc., Travelzest Holdings Inc. and The Cruise Professionals Limited.

J. Brian Hewlitt

J. Brian Hewlitt began his technology career in 1992. From 1996 to 1998 he was involved in website and network design, database applications development, email marketing and ecommerce consulting for Sunquest Vacations, Albatours and Virgin Holidays in Canada. From 1998 to 2005, Brian served as Vice President of Technology, and prior to leaving itravel2000 in May 2008, Brian was the Vice President of Business Development. J. Brian Hewlitt is a Canadian citizen, resident in Canada.

J. Brian Hewlitt is a director of 6632921 Canada Inc., 6632947 Canada Inc., CanCo Holding and CanCo.

None of the Concert Party Beneficiaries have in the past five years been convicted of fraudulent offences, been declared bankrupt, been associated with a company which has entered into receivership or liquidation or undergone any public incrimination or sanctions by statutory or regulatory authorities.

4. INFORMATION ON GARTMORE

Gartmore is an independent fund manager, whose sole focus is asset management. Gartmore offers a wide range of investment products and services tailored to meet the varying needs of both retail and institutional clients. Gartmore has offices strategically located in London, Tokyo, Boston, Madrid and Frankfurt.

Gartmore's head office is located at Gartmore House, 8 Fenchurch Place, London EC3M 4PB.

Gartmore currently has an interest in 3,724,491 Ordinary Shares (registered in the name of various nominees), equivalent to 12.0 per cent. of the Issued Share Capital, in three Gartmore funds: Alphagen Volantis fund (2,003,368 Ordinary Shares; 6.5 per cent.), Gartmore Growth Opportunities fund (60,745 Ordinary Shares; 0.2 per cent.) and Gartmore UK and Irish Smaller Companies fund (1,660,378 Ordinary Shares; 5.4 per cent.). It is proposed that 40,000,000 New Ordinary Shares are placed with Gartmore resulting in Gartmore being interested in 30.1 per cent. of the Enlarged Issued Share Capital.

The Alphagen Volantis fund is an absolute return fund investing primarily in UK smaller companies. It is proposed that 17,543,332 of the New Ordinary Shares placed with Gartmore are allocated to the Alphagen Volantis fund, resulting in the fund being interested in 13.5 per cent. of the Enlarged Issued Share Capital. The fund's net asset value was £165.8 million on 30 July 2009 (being the latest practicable date prior to the posting of this document).

Gartmore's Growth Opportunities fund seeks capital appreciation from investment primarily in the shares of quoted UK smaller companies. It is proposed that 456,669 of the New Ordinary Shares placed with Gartmore are allocated to Gartmore Growth Opportunities fund, resulting in the fund being interested in 0.4 per cent. of the Enlarged Issued Share Capital. The fund's net asset value was £51.1 million on 30 July 2009 (being the latest practicable date prior to the posting of this document).

Gartmore's UK and Irish Smaller Companies fund offers exposure to UK and Irish smaller companies. It is proposed that 9,999,999 of the New Ordinary Shares placed with Gartmore are allocated to the Gartmore UK and Irish Smaller Companies fund, resulting in the fund being

interested in 8.0 per cent. of the Enlarged Issued Share Capital. The fund's net asset value was £149.7 million on 30 July 2009 (being the latest practicable date prior to the posting of this document).

Gartmore's UK Small Cap Best Ideas fund seeks capital appreciation through managing a concentrated portfolio of small cap companies. It is proposed that 6,000,000 of the New Ordinary Shares placed with Gartmore are allocated to this fund, resulting in the fund being interested in 4.1 per cent. of the Enlarged Issued Share Capital. The fund's net asset value was £26.6 million on 30 July 2009 (being the latest practicable date prior to the posting of this document).

Tartan Investment Partners, also managed by Gartmore, seeks capital appreciation through managing a concentrated portfolio of small and illiquid companies. It is proposed that 6,000,000 of the New Ordinary Shares placed with Gartmore are allocated to the Tartan fund, resulting in the fund being interested in 4.1 per cent. of the Enlarged Issued Share Capital. The fund's net asset value was £10.6 million on 30 July 2009 (being the latest practicable date prior to the posting of this document).

Each of the funds is managed by Robert Giles.

5. INTERESTS AND DEALINGS

5.1 Definitions

For the purposes of this paragraph the following terms have the following meanings:

- (a) **“acting in concert”** has the meaning attributed to it in the Takeover Code;
- (b) **“arrangement”** includes any indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing;
- (c) **“associate”** of any company means:
 - (i) its parent, subsidiaries and fellow subsidiaries and their associated companies, and companies of which any such companies are associated companies all with each other (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of “associated company” status);
 - (ii) its connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
 - (iii) its directors and the directors of any company covered in (i) above (together in each case with their close relatives and related trusts);
 - (iv) its pension funds or the pension funds of a company covered in (i) above;
 - (v) any investment company, unit trust or other person whose investments an associate manages on a discretionary basis, in respect of the relevant investment accounts;
 - (vi) its employee benefit trusts, or the employee benefit trust of a company covered in (i) above; and
 - (vii) a company having a material trading arrangement with the company;
- (d) **“category 1 associate”** means, in relation to a company, its parent, subsidiaries and fellow subsidiaries, their associated companies, and companies of which such parent, subsidiaries, fellow subsidiaries or associated companies are associated companies (for this purpose, ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of “associated company” status);
- (e) **“connected adviser”** has the meaning attributed to it in the Takeover Code;
- (f) **“connected person”** has the meaning attributed to it in sections 252 to 255 of the 2006 Act;
- (g) **“control”** means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting right attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holding gives *de facto* control;
- (h) **“dealing”** or **“dealt”** includes the following:
 - (i) the acquisition or disposal of relevant securities of the Company, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attached to relevant securities of the Company or of general control of relevant securities of the Company;

- (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any relevant securities of the Company;
 - (iii) subscribing or agreeing to subscribe for relevant securities of the Company;
 - (iv) the exercise or conversion of any relevant securities of the Company carrying conversion or subscription rights;
 - (v) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to relevant securities of the Company;
 - (vi) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities of the Company; and
 - (vii) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities of the Company in which a person is interested or in respect of which he has a short position;
- (i) **“derivative”** includes any financial product whose value, in whole or in part, is determined, directly or indirectly, by reference to the price of an underlying security;
 - (j) **“disclosure date”** means 4 August 2009, being the latest practicable date prior to the posting of this document;
 - (k) **“disclosure period”** means the period commencing on 5 August 2008, being the date 12 months prior to the date of posting this document, and ending on the disclosure date;
 - (l) **“exempt principal trader”** or **“exempt fund manager”** has the meaning attributed to it in the Takeover Code;
 - (m) being **“interested”** in relevant securities of the Company includes where a person:
 - (i) owns relevant securities of the Company;
 - (ii) has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities of the Company or has general control of them;
 - (iii) by virtue of any agreement to purchase, option or derivative, has the right or option to acquire relevant securities of the Company or call for their delivery or is under an obligation to take delivery of them (whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise); or
 - (iv) is party to any derivative whose value is determined by reference to its price and which results, or may result, in his having a long position in it;
 - (n) **“relevant securities of the Company”** means shares in the Company (or derivatives referenced thereto) and securities convertible into, rights to subscribe for and options (including traded options) in respect thereof; and
 - (o) **“short position”** means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery.

5.2 Shareholdings and interests at the disclosure date

5.2.1 Concert Party

As at the disclosure date, the interests, rights to subscribe and short positions in the Company's securities of any Concert Party Member (including any director of any Concert Party Member, or any member of their respective immediate families, related trusts or connected persons) was as follows:

	Number of Ordinary Shares ¹	Percentage of Issued Share Capital	Number of Ordinary Shares under Option
Direct interest			
CanCo	10,572,614	34.1	Nil
NewCo	Nil	Nil	Nil
Jack Fraser	Nil	Nil	78,740
Indirect interest			
Ely Trust	10,572,614 ²	34.1	Nil
Edward J. Carroll	— ²	—	Nil
Shane G. Carroll	— ²	—	Nil
Jonathan Carroll	— ²	—	Nil
Jeffrey D. MacKenzie	— ²	—	Nil
Elizabeth Carroll	— ²	—	Nil
J. Brian Hewlitt	— ²	—	Nil
Francis Henry Perry	Nil	Nil	Nil
Bernard Michael Shimmin	Nil	Nil	Nil
Philip Richard Whittam	Nil	Nil	Nil

1 Excludes Ordinary Shares over which Options are exercisable.

2 The Ely Trust is a discretionary inter vivos trust, the present discretionary beneficiaries of which are Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey MacKenzie and J. Brian Hewlitt. The Ely Trust holds all of the issued and outstanding share capital of CanCo Holding which, in turn, holds all of the issued and outstanding share capital of Starline, which then holds all of the issued and outstanding share capital of CanCo, as described in paragraph 3.2 of this Part 3, above. Due to the discretionary nature of the Ely Trust, it is not possible to determine the indirect interest in Ordinary Shares currently held by the present beneficiaries through the trust.

5.2.2 Gartmore

As at the disclosure date, the interests, rights to subscribe and short positions in the Company's securities of Gartmore (including any director of Gartmore, or any member of their respective immediate families, related trusts or connected persons) was as follows:

Fund	Number of Ordinary Shares	Percentage of Issued Share Capital	Fund Net Asset Value ¹ (£m)	Holding as a proportion of fund Net Asset Value ¹ %
Alphagen Volantis ²	2,003,368	6.5	165.8	0.2
Growth Opportunities ³	60,745	0.2	51.1	0.0
UK & Irish Smaller Companies ⁴	1,660,378	5.4	149.7	0.2
Tartan Investment Partners	Nil	Nil	10.6	Nil
UK Small Cap Best Ideas	Nil	Nil	26.6	Nil
Total: ⁵	3,724,491	12.0	403.8	

1 As at 30 July 2009.

2 Shares registered in the name of Vidacos Nominees Limited.

3 Shares registered in the name of BNY GIL Client Account (Nominees) Limited.

4 Shares registered in the name of HSBC Global Custody Nominee (UK) Limited.

5 Any casting differences due to rounding.

5.2.3 Directors

As at the disclosure date:

- (a) the interests, rights to subscribe and short positions of the Directors, their immediate families, related trusts and the persons connected with them (within the meaning of sections 252 to 255 and 820 to 825 of the 2006 Act) in the securities of the Company were as follows:

	Number of Ordinary Shares³	Percentage of Issued Share Capital
Mark Molyneux ¹	39,682	0.13
Jonathan Carroll	Nil	Nil
Jack Fraser	Nil	Nil
Nishma Robb	Nil	Nil
Richard Hall ²	21,100	0.07
Peter Thomson	180,000	0.58
Total:	240,782	0.78

1 Mark Molyneux is beneficially interested in 39,682 Ordinary Shares in the name of Pershing Nominees Limited.

2 Richard Hall is beneficially interested in 21,100 Ordinary Shares in the name of Barclayshare Nominees Limited.

3 Excludes Ordinary Shares over which Options are exercisable; see paragraph 5.2.3(b) below for details.

- (b) the following Options over Ordinary Shares had been granted to certain Directors and remain outstanding:

EMI Scheme

<i>Name</i>	Number of Ordinary Shares under option	Exercise price	Exercise period
Nishma Robb	77,220	£1.295	19/04/2009 to 18/04/2016
Total:	77,220		

Unapproved Share Option Scheme

<i>Name</i>	Number of Ordinary Shares under option	Exercise price	Exercise period
Jack Fraser	78,740	£1.270	20/10/2009 to 19/10/2016
Nishma Robb	27,682	£1.445	30/01/2010 to 29/01/2017
Nishma Robb	150,000	£1.400	17/09/2010 to 16/09/2017
Total:	256,422		

5.3 Shareholdings and interests immediately following Admission

5.3.1 Concert Party

Immediately following Admission (assuming passing of all Resolutions), the interests, rights to subscribe and short positions in the Company's securities of Concert Party Members (including any director of any Concert Party Member, or any member of their respective immediate families, related trusts or connected persons) will be as follows:

	Number of Ordinary Shares ¹	Maximum number of Ordinary Shares under Options or Incentive Options	Percentage of Enlarged Issued Share Capital ⁴
Direct interest			
CanCo	10,572,614	Nil	6.7
NewCo ²	40,000,000	Nil	25.4
Jonathan Carroll	Nil	6,220,119 Incentive Options	3.9
Jack Fraser	1,000,000	6,220,119 Incentive Options 78,740 Options	4.6
Total⁵:	51,572,614	12,518,978	40.7
Indirect interest			
Ely Trust	10,572,614	Nil	6.7
Edward J. Carroll	8,000,000 ^{2,3}	Nil	5.1 ^{2,3}
Shane G. Carroll	8,000,000 ^{2,3}	Nil	5.1 ^{2,3}
Jonathan Carroll	8,000,000 ^{2,3}	Nil	5.1 ^{2,3}
Jeffrey D. MacKenzie	8,000,000 ^{2,3}	Nil	5.1 ^{2,3}
Jack Fraser	8,000,000 ²	Nil	5.1 ²
Elizabeth Carroll	— ³	Nil	— ³
J. Brian Hewlitt	— ³	Nil	— ³
Francis Henry Perry	Nil	Nil	Nil
Bernard Michael Shimmin	Nil	Nil	Nil
Philip Richard Whittam	Nil	Nil	Nil
Total⁵:	51,572,614	Nil	40.7

1 Excludes Ordinary Shares over which Options, Warrants or Incentive Options are exercisable.

2 On Admission, Edward J. Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey D. MacKenzie and Jack Fraser will each hold 20 per cent. of the issued share capital of NewCo, representing an indirect beneficial interest of each of them in 8,000,000 Ordinary Shares.

3 The Ely Trust is a discretionary inter vivos trust, the present discretionary beneficiaries of which are Edward J. Carroll, Elizabeth Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey MacKenzie and J. Brian Hewlitt. The Ely Trust holds all of the issued and outstanding share capital of CanCo Holding which, in turn, holds all of the issued and outstanding share capital of Starline, which then holds all of the issued and outstanding share capital of CanCo, as described in paragraph 3.2 of this Part 3, above. Due to the discretionary nature of the Ely Trust, it is not possible to determine the indirect interest in Ordinary Shares currently held by the present beneficiaries through the trust.

4 Assumes exercise of all Options and Incentive Options by Concert Party Members, but excluding Warrants.

5 Any casting differences are due to rounding.

5.3.2 Gartmore

Immediately following Admission (assuming passing of all Resolutions), the interests and short positions in the Company's securities of Gartmore (including any director of Gartmore, or any member of their respective immediate families, related trusts or connected persons) will be as follows:

Fund	Number of Ordinary Shares	Percentage of Enlarged Issued Share Capital¹	Fund Net Asset Value² (£m)	Holding as a proportion of fund Net Asset Value²%
Alphagen Volantis ³ Growth Opportunities ⁴	19,546,700	13.5	165.8	0.6
UK & Irish Smaller Companies ⁵	517,414	0.4	51.1	0.1
Tartan Investment Partners	11,660,377	8.0	149.7	0.4
UK Small Cap Best Ideas	6,000,000	4.1	10.6	2.8
	6,000,000	4.1	26.6	1.1
Total:	43,724,491	30.1	403.8	

1 Excludes Ordinary Shares over which Options, Warrants or Incentive Options are exercisable.

2 As at 30 July 2009.

3 Shares registered in the name of Vidacos Nominees Limited.

4 Shares registered in the name of BNY GIL Client Account (Nominees) Limited.

5 Shares registered in the name of HSBC Global Custody Nominee (UK) Limited.

6 Any casting differences due to rounding.

5.4 Dealings

5.4.1 Concert Party

Dealings in the Company's securities during the disclosure period by any Concert Party Member (including any director of any Concert Party Member, or any member of their respective immediate families, related trusts or connected persons) were as follows:

Name	Date	Nature of Transaction	Number of Ordinary Shares	Price (pence)
CanCo	17 April 2009	Conversion of exchangeable shares in 0763756 BC Limited in connection with the acquisition of itravel2000	10,572,614	— ¹

1 Pursuant to the provisions attaching to the exchangeable shares, the price payable to CanCo for each exchangeable share was satisfied by the delivery of one Ordinary Share.

5.4.2 Gartmore

Dealings in the Company's securities during the disclosure period by Gartmore (including any director of Gartmore, or any member of their respective immediate families, related trusts or connected persons) were as follows:

Date	Nature of Transaction	Number of Ordinary Shares	Price (pence)
24 April 2009	Sale	6,580	28.5
24 April 2009	Sale	54,165	28.5
24 April 2009	Sale	54,165	28.5
24 April 2009	Sale	445,835	28.5
24 April 2009	Purchase	6,580	28.5
24 April 2009	Purchase	54,165	28.5
24 April 2009	Purchase	54,165	28.5
24 April 2009	Purchase	445,835	28.5
3 February 2009	Purchase	60,745	38.0
3 February 2009	Sale	738,217	38.0

5.5 *General*

As at the close of business on the disclosure date, save as disclosed in this paragraph 5:

- (a) no Concert Party Member, nor any director, or any person acting in concert with any Concert Party Member, (nor any members of their respective immediate families, related trusts or connected persons) had any interest in or right to subscribe for, or had any short position in relation to, any relevant Company securities;
- (b) no Concert Party Member, nor any director, or any person acting in concert with any Concert Party Member, (nor any members of their respective immediate families, related trusts or connected persons) had dealt in any relevant securities of the Company in the disclosure period;
- (c) no Concert Party Member, nor any director, or any person acting in concert with any Concert Party Member, (nor any members of their respective immediate families, related trusts or connected persons) had borrowed or lent any relevant securities of the Company in the disclosure period;
- (d) neither Gartmore nor any director, or any person acting in concert with Gartmore (nor any of their respective immediate families, related trusts or connected persons) had any interest in or right to subscribe for, or had any short position in relation to, any relevant Company securities;
- (e) neither Gartmore nor any director, or any person acting in concert with Gartmore (nor any members of their respective immediate families, related trusts or connected persons) had dealt in any relevant securities of the Company in the disclosure period;
- (f) neither Gartmore nor any director, or any person acting in concert with Gartmore (nor any members of their respective immediate families, related trusts or connected persons) had borrowed or lent any relevant securities of the Company in the disclosure period;
- (g) none of the Directors (nor any members of their respective immediate families, related trusts or connected persons) had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities of the Company;
- (h) no category 1 associate of the Company had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities of the Company;
- (i) no pension fund of the Company or of a category 1 associate of the Company had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities of the Company;
- (j) no employee benefit trust of the Company or of a category 1 associate of the Company had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities of the Company;
- (k) no connected adviser to the Company or to a category 1 associate of the Company or to a person acting in concert with the Company, nor any person controlling, controlled by or under the same control as any such connected adviser (except for an exempt principal trader or exempt fund manager) had any interest in or right to subscribe for, or had any short position in relation to, any relevant securities of the Company;
- (l) neither the Company nor any person acting in concert with the Company had borrowed or lent any relevant securities of the Company;
- (m) neither the Company nor any Director had any interest in or right to subscribe for, or had any short position in relation to, or had ever dealt in any securities of any Concert Party Member; and
- (n) the Company had not borrowed or lent any relevant securities of any Concert Party Member in the disclosure period.

6. **MATERIAL CONTRACTS OF THE GROUP**

Save as disclosed below, no contracts have been entered into by any member of the Group in the two years prior to the publication of this document which are outside the ordinary course of business and which are or may be considered to be material:

(a) *Captivating Cuba Agreement*

On 8 August 2007 the Company entered into an agreement with the shareholders of Captivating Cuba Limited (“CCL”) whereby the Company agreed to acquire the entire issued share capital of CCL (being 30,000 ordinary shares of £1 each and 10,000 preference shares of £1 each). The total consideration paid by the Company for the shares in CCL was £10,001 apportioned as to £1 for the ordinary shares and £10,000 for the preference shares. The Company also agreed to pay £242,000 to enable CCL to repay £242,000 of outstanding shareholder loans. The agreement contained usual commercial and tax warranties.

(b) *J.M.B. Travel Agreement*

On 14 September 2007 the Company entered into an agreement with the shareholders of J.M.B. Travel Consultants Limited (“JMB”) whereby the Company agreed to acquire the entire issued share capital of JMB (being 30,000 ordinary shares of £1 each).

The total consideration paid by the Company for the shares in JMB was £1,120,000. This was subject to an adjustment in accordance with completion accounts (to be prepared as at the date of completion) in the event that the net current assets of JMB at completion were not equal to £460,000. This completion accounts adjustment resulted in a further payment of £12,789 being made by the Company. The agreement contained usual commercial and tax warranties.

(c) *Debt Facility*

On 19 June 2008 the Company entered into the Debt Facility pursuant to which Barclays agreed to provide a term loan facility of up to £16,000,000 to the Group repayable on an amortising schedule between 30 November 2008 and 31 May 2012.

The interest payable on the Debt Facility was the aggregate of 2.75 per cent., plus LIBOR (being the British Bankers’ Association Interest Settlement Rate) for the relevant currency and interest period together with an annual percentage rate calculated by Barclays in connection with mandatory costs incurred by Barclays relating to the Debt Facility.

The Debt Facility will be superseded, with effect from Admission, by the Amended Facility Agreement details of which are set out in paragraph 6(d) below.

(d) *Amended Facility Agreement*

On 5 August 2009, the Company entered into the Amended Facility Agreement, which agreement amends and restates the Debt Facility on revised terms. The Amended Facility Agreement will become effective on Admission.

The interest payable under the Amended Facility Agreement is the aggregate of 4.50 per cent., plus LIBOR (being the British Bankers’ Association Interest Settlement Rate) for the relevant currency and interest period together with an annual percentage rate calculated by Barclays in connection with mandatory costs incurred by Barclays in connection with the Amended Facility Agreement.

The Amended Facility Agreement is substantially based on the Debt Facility and includes various warranties and representations from the Company in respect of the Group as well as financial covenants, general undertakings and default provisions.

Pursuant to the Amended Facility Agreement outstanding amounts in respect of the Debt Facility will be split into Sterling loans totalling £4,500,000 and CAD loans of \$19,351,396.44. Outstanding amounts under the loans will be repayable in accordance with the following schedule:

Repayment Date	Amount repayable	
	Sterling (£)	CAD
31 May 2010	465,750.00	2,002,869.53
30 November 2010	620,550.00	2,668,557.57
31 May 2011	620,550.00	2,668,557.57
30 November 2011	931,050.00	4,003,803.92
31 May 2012	1,862,100.00	8,007,607.85

The Amended Facility Agreement includes financial covenants which test the Group's financial performance in respect of each last 12 month period ending on each 31 October, 31 January, 30 April and 31 July (the "**Quarter Dates**") starting from the 12 month period ending on 31 October 2009. The financial covenant tests and the required ratios are as follows:

1. Total debt : EBITDA

The ratio of total debt to EBITDA for the 12 month period ending on the following test dates shall not be more than the corresponding ratio set out alongside such dates:

Test date	Ratio
31 October 2009	2.5 : 1
31 January 2010	2.5 : 1
30 April 2010	2.5 : 1
31 July 2010	2.25 : 1
31 October 2010	2.25 : 1
31 January 2011 and each Quarter Date thereafter	2 : 1

2. Total interest cover

The ratio of EBITDA to finance charges for the 12 month period ending on the following test dates shall not be less than the corresponding ratio set out alongside such dates:

Test date	Ratio
31 October 2009	3.75 : 1
31 January 2010	3.75 : 1
30 April 2010	3.75 : 1
31 July 2010	4 : 1
31 October 2010	4.25 : 1
31 January 2011 and each Quarter Date thereafter	4.5 : 1

3. Total cash flow cover

The ratio of cash flow after debt service to total debt service for 12 month periods ending on each Quarter Date shall be not less than 1.1 : 1.

The Amended Facility Agreement includes a requirement that £2,000,000 of the proceeds of the Placing are deposited in a pledged account held at Barclays. The pledged deposit will be released to the Company upon (i) the Group's last twelve months' EBITDA being greater than 2 times its gross debt at the end of any Quarter, (ii) at that time last twelve months' EBITDA being £6,500,000 or greater and (iii) the Directors having certified to Barclays that they believe that the Group will comply with its financial covenant obligations in the following 12 month period. If these conditions are not satisfied the cash will remain in the pledged account until either the Company requests that it is applied in prepayment of the facilities or, following a default, Barclays enforces its security over the account.

(e) Cruise Professionals Acquisition Agreement

Pursuant to an acquisition agreement dated 19 June 2008 ("**CP Agreement**"), the Company acquired all of the issued common shares of The Cruise Professionals Limited (the "**Purchased Shares**") ("**Cruise Professionals Target**"), from Mary Jean Tully (the "**Vendor**") through an indirect, wholly-owned subsidiary of the Company, 2172417 Ontario Inc. (the "**Buyer**"). Immediately following completion of the acquisition, Cruise Professionals Target and the Buyer amalgamated to form The Cruise Professionals Limited.

The consideration was CAD\$13,000,000, which was satisfied by the payment of CAD\$11,500,000 in cash and the issue of 682,000 Ordinary Shares.

The CP Agreement provided for representations and warranties by the parties thereto that are customary for a transaction of its nature.

The Ordinary Shares issued pursuant to the CP Agreement are subject to the terms of a lock-in and orderly market agreement between the Company, the Company's nominated adviser and broker and the Vendor. Pursuant to such lock-in agreement, the Vendor has agreed to certain restrictions on the disposal of Ordinary Shares held by her. In addition, subject to certain exclusions, the Vendor has agreed not to pledge or dispose of, or agree to pledge or dispose of, directly or indirectly, any interest in any such shares for two years from the date of issue of such shares (the "**Release Date**"). Furthermore, any such disposal of such shares within twelve months following the Release Date shall only be made through the Company's nominated adviser and broker on market terms for carrying out such disposal. Based on the interim results which are included at Section B of Part 2, the Company has determined that no further earn out payment will be payable under this agreement. However, under the terms of the CP Agreement the Vendor has the ability to dispute the number upon which this determination has been made.

(f) *White Label Agreement*

On 17 July 2008 Holiday Express, a wholly-owned subsidiary of the Company, entered into an agreement ("**White Label Agreement**") with Sunjet Holdings Limited ("**Sunjet**") whereby Holiday Express agreed to sell to Sunjet the business comprising agreements with certain specified customers ("**White Label Partners**") for the provision of websites and the fulfilment of sales generated by those websites ("**White Label Business**"), together with certain assets connected with the White Label Business. The total consideration paid by Sunjet for the White Label Business and the assets was £112,175, less £52,077 (representing monies received by the White Label Business from customers minus monies paid to suppliers), and subject to (i) completion and (ii) a downward adjustment if more than 25 per cent. of White Label Partners indicated within 30 days of completion that they did not wish Sunjet to manage their websites going forward. The final consideration paid by Sunjet to Holiday Express (taking into account the aforementioned adjustments) was £60,098.

The White Label Agreement contains usual commercial warranties. Additionally, the White Label Agreement contains restrictive covenants whereby Holiday Express agrees that for a period of two years from completion, it will not, without the prior written consent of Sunjet, solicit or deal with any of the White Label Partners who were dealing with the White Label Business at any time during the 12 months immediately preceding the date of completion or be engaged or interested in any business which supplies goods and/or services which are competitive with or of a type supplied by the White Label Business.

(g) *Placing Agreement*

On 5 August 2009 the Company and Investec entered into a placing agreement in respect of the Placing, pursuant to which Investec has agreed (subject to the terms and conditions set out therein including, among other things, the passing at the General Meeting of each of the Resolutions and Admission occurring no later than 8 a.m. on 1 September 2009), to use its reasonable endeavours to procure subscribers for the New Ordinary Shares at the Placing Price and otherwise on the terms of placing letters. Investec is not underwriting the Placing and will not be liable to subscribe, purchase or otherwise pay for any New Ordinary Shares.

The Placing Agreement contains warranties given by the Company in relation to, among other things, information contained in this document and other matters relating to the Group and its business. In addition, the Company provides an indemnity to Investec in respect of certain matters set out in the Placing Agreement.

Investec is entitled to terminate the Placing Agreement prior to Admission in certain circumstances, including in the event of: (i) breach by the Company of the Placing Agreement or any of the warranties set out therein which Investec considers material in the context of the Placing; (ii) a material adverse change, or a development (involving a prospective material adverse change), in or affecting the business, management, financial or trading position or prospects of the Company, shareholders' funds or results of the Company or of any other member of the Group; (iii) failure by the Company to comply with the AIM Rules; or (iv) certain circumstances of *force majeure*.

(h) *Merchants' Letter*

On 24 July 2009 the Company entered into an agreement with Merchant Securities (“**Merchants' Letter**”) which sets out the basis upon which Merchant Securities is engaged by the Company in relation to the Placing. Pursuant to the terms of the Merchants' Letter, Merchant Securities agrees, among other things, to use its reasonable endeavours to procure ‘sub placees’ to invest between £1,000,000 and £1,500,000 in the Placing (“**Merchant Placing**”). The Company agrees not to appoint any other placing agent, other than Investec, in relation to the Merchant Placing without the written consent of Merchant Securities. In addition, the Company agrees to pay Merchant Securities commission equal to three per cent. of the funds invested pursuant to the Merchant Placing and procured by Merchant Securities in consideration for the services provided. In the event that the Placing does not complete by 31 August 2009, Merchant Securities reserves the right to agree with the Company any additional fees which are payable. If the Placing does not complete, Merchant Securities shall not be entitled to any fees. In addition, the Company provides an indemnity to Merchant Securities on the terms set out in the Merchants' Letter.

(i) *Relationship Agreements*

On 5 August 2009 the Company entered into an agreement with CanCo and NewCo (“**CanCo Relationship Agreement**”) to regulate the relationship between the parties in order to allow the Company to carry on its business independently of CanCo. Pursuant to the terms of the agreement, CanCo agrees to exercise, and agrees to procure that its respective associates shall exercise, the voting rights attaching to the Ordinary Shares held by them (“**Voting Rights**”) so as to ensure that at all times the Company and each other member of the Group is able to carry on its business independently of CanCo or any of its subsidiary and/or parent undertakings from time to time (“**CanCo Group**”) and/or its/their associates. In addition, the CanCo Relationship Agreement contains requirements upon CanCo intended to: (i) maintain the independence of the Board; (ii) regulate related party transactions between the Group and the CanCo Group and its/their associates; (iii) ensure that each member of the Group and the CanCo Group and its/their associates enter into any arrangements on arm's length terms; and (iv) ensure that no variations are made to the memorandum and articles of association of the Company which would be contrary to the maintenance of the independence of the Company.

Pursuant to the terms of the CanCo Relationship Agreement, CanCo agrees: (i) to inform the Board if it or any member of the CanCo Group or any of its/their associates proposes to enter into any transaction or relationship with the Group and to provide all such information as is reasonably required by the Company; (ii) to exercise the Voting Rights to assist the Company to ensure that the requirements of the AIM Rules are complied with; (iii) to comply with all applicable laws and regulations in relation to dealings in Ordinary Shares following the disclosure of price-sensitive information in relation to the Company; and (iii) not to hold an interest of 30 per cent. or more in the assets or shares of any undertaking which materially competes with the business of the Group in the countries in which the Group operates. The CanCo Relationship Agreement is conditional on Admission. It terminates in the event that CanCo and its associates and persons acting in concert with them cease to control an interest representing at least 30 per cent. of the issued share capital of the Company.

On 5 August 2009 the Company entered into an agreement with NewCo and CanCo (“**NewCo Relationship Agreement**”) to regulate the relationship between the parties in order to allow the Company to carry on its business independently of NewCo. The NewCo Relationship Agreement is on identical terms to the CanCo Relationship Agreement described above.

The CanCo Relationship Agreement and the NewCo Relationship Agreement together allow CanCo and NewCo to appoint a maximum of three persons to the Board provided the Board remains independent. Two of the three appointees are Jonathan Carroll and Jack Fraser. As at 4 August 2009 (the latest practicable date prior to the posting of this document) neither CanCo nor NewCo had given notice to the Company of their intention to nominate a third appointee.

(j) *Irrevocable Undertakings*

Irrevocable undertakings to vote (or procure the vote) in favour of the Resolutions (subject to the caveats set out below) have been received by the Company from the persons referred to below in respect of a total of 14,537,887 Ordinary Shares, in aggregate representing approximately 46.88 per cent. of the Existing Issued Share Capital.

Mark Molyneux has entered into an irrevocable undertaking with the Company pursuant to which he has irrevocably undertaken to procure that Merchant Securities exercises all voting rights attaching to the Ordinary Shares beneficially held by him and held by Merchant Securities as registered holder to vote in favour of the Resolutions (other than that relating to the Rule 9 Waivers and the approval of the Management Incentive Arrangement) in respect of his entire beneficial shareholding in the share capital of the Company. Such beneficial shareholding in the share capital of the Company amounts to 39,682 Ordinary Shares, representing approximately 0.13 per cent. of the Issued Share Capital.

Richard Hall has entered into an irrevocable undertaking with the Company pursuant to which he has irrevocably undertaken to procure that Barclayshare Nominees Limited exercise all voting rights attaching to the Ordinary Shares beneficially held by him and held by Barclayshare Nominees Limited as registered holder to vote in favour of the Resolutions (other than that relating to the Rule 9 Waivers) in respect of his entire beneficial shareholding in the share capital of the Company. Such beneficial shareholding in the share capital of the Company amounts to 21,100 Ordinary Shares, representing approximately 0.07 per cent. of the Issued Share Capital.

Peter Thomson has entered into an irrevocable undertaking with the Company pursuant to which he has irrevocably undertaken to exercise all voting rights attaching to the Ordinary Shares beneficially held by him to vote in favour of the Resolutions. Such beneficial shareholding amounts to 180,000 Ordinary Shares, representing approximately 0.58 per cent. of the Issued Share Capital.

The Company has received an irrevocable undertaking from Gartmore to procure that each of Vidacos Nominees Limited, BNY GIL Client Account (Nominees) Limited and HSBC Global Custody Nominee (UK) Limited exercises all voting rights attaching to the Ordinary Shares beneficially held by Gartmore to vote in favour of the Resolutions (other than that relating to the Rule 9 Waivers) in respect of the entire beneficial shareholding of Gartmore in the share capital of the Company. Such beneficial shareholdings amount in aggregate to 3,724,491 Ordinary Shares, representing approximately 12.0 per cent. of the Issued Share Capital.

The Company has also received an irrevocable undertaking from CanCo to exercise all voting rights attaching to the Ordinary Shares beneficially held by CanCo to vote in favour of the Resolutions (other than that relating to the Rule 9 Waivers and the approval of the Management Incentive Arrangement). Such beneficial shareholding amounts in aggregate to 10,572,614 Ordinary Shares, representing approximately 34.1 per cent. of the Issued Share Capital.

7. MATERIAL CONTRACTS OF THE CONCERT PARTY

Save as disclosed in paragraph 6 above, and below, no contracts have been entered into by any Concert Party Member in the two years prior to the publication of this document which are outside the ordinary course of business and which are or may be considered to be material.

Edward J. Carroll, Shane G. Carroll, Jeffrey D. MacKenzie, and Jack Fraser, each a member of the Concert Party, are shareholders in 2149201 Ontario Inc. which entered into a property lease agreement (as landlord) with 4358376 Canada Inc. carrying on business as itravel2000 (as tenant) in 2008. The property is located at 2350 Matheson Boulevard East, Mississauga, Ontario, Canada, and the lease is for the entire building (approx. 40,000 square feet) and lands (approx. 140 parking spaces). The term of the lease is 10 years from October 1 2008 to September 30 2018 with market competitive net rates of CAD\$18.50 per square foot in years 1 to 5, and CAD\$23.50 per square foot in years 6 to 10. All operating and maintenance costs are to the tenant's account. A leasehold improvement allowance of up to CAD\$800,000 was included as part of the lease inducement by the landlord.

8. FINANCING ARRANGEMENTS

- 8.1 The consideration payable by NewCo under the Placing is to be equally financed by the subscription for loan notes and common shares in NewCo by Edward J. Carroll, Shane G. Carroll, Jonathan Carroll, Jeffrey D. MacKenzie and Jack Fraser.
- 8.2 Neither the payment of interest on, nor any repayment of, nor security for, any liability (contingent or otherwise) of any Concert Party Member will depend to any significant extent on the business of Travelzest.
- 8.3 The consideration payable by Gartmore under the Placing is to be financed by client monies held within the Gartmore funds.
- 8.4 Neither the payment of interest on, nor any repayment of, nor security for, any liability (contingent or otherwise) of Gartmore will depend to any significant extent on the business of Travelzest.

9. NEW ARTICLES OF ASSOCIATION

Pursuant to Resolution 6, it is proposed that the Company adopts new articles of association (“**New Articles**”). The principal differences between the Company’s current articles of association (“**Current Articles**”) and the New Articles are summarised below. Changes of a minor, conforming or purely technical nature have not been mentioned specifically.

9.1 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the 2006 Act are in the main removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company’s constitution. Certain examples of such provisions include provisions as to the form of resolutions, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings.

9.2 Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the 2006 Act. Further, the remainder of the provision is reflected in full in the 2006 Act.

The Current Articles enable members to act by written resolution. Under the 2006 Act public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

9.3 Variation of class rights

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the 2006 Act and these provisions are reflected in the New Articles.

9.4 Fractions

The Current Articles contain a provision providing that if a consolidation or subdivision of shares results in members being entitled to fractions of shares, the Board can deal with such fractions as it thinks fit, including selling the fractions and distributing the proceeds in proportion among the members save for amounts of £3.00 or less which shall be retained for the benefit of the Company. This provision has been amended in the New Articles to provide where any member’s entitlement to a portion of the proceeds of sale of the fractions amounts to less than £3.00, the Board can distribute that member’s proceeds to charity.

9.5 Convening general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the 2006 Act. In particular, the 2006 Act provides that a general meeting (other than an annual general meeting) to consider a special resolution can be convened on 14 days’ notice whereas previously 21 days’ notice was required. In addition, the chairman of a general meeting no longer has a casting vote.

9.6 *Votes of members*

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act so that the articles cannot provide that they should be received:

- more than 48 hours before the meeting or adjourned meeting;
- in the case of a poll taken more than 48 hours after it was demanded, more than 24 hours before the taking of the poll; or
- in the case of a poll taken less than 48 hours after it was demanded, no earlier than the time at which it was demanded.

The New Articles reflect these provisions and give the Directors discretion, when calculating these time limits, to exclude weekends and bank holidays.

In addition, the 2006 Act provides that multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect this provision.

Under section 323(1) of the 2006 Act, a corporate shareholder can now appoint more than one corporate representative. The Company is aware of concerns that have been raised about the effect of section 323(4) of the 2006 Act, which provides that where multiple corporate representatives of the same corporate shareholder vote differently, the power to vote is treated as not having been exercised. As the New Articles generally avoid duplicating provisions of the 2006 Act, the New Articles do not incorporate or explicitly reflect the terms of section 323(4) of the 2006 Act. The Company intends to take account of best practice to allow, as far as possible, multiple corporate representatives to attend general meetings of the Company and ensure their votes are counted.

9.7 *Age of directors on appointment*

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

9.8 *Notice of board meetings*

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

9.9 *Records to be kept*

The provision in the Current Articles requiring the board to keep accounting records has been removed as this requirement is contained in the 2006 Act.

9.10 *Electronic and web communications*

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

9.11 *Conflicts of interest*

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation.

Section 175(5)(b) of the 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest so that the relevant company's directors may avoid breaching their duties. The New Articles give the directors authority to approve conflicts and potential conflicts of interest and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only independent directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles contain provisions relating to confidential information, attendance at board meetings and availability of board papers. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors as set out above.

9.12 *Directors' indemnities*

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. This is reflected in the New Articles. The opportunity is also being taken to clarify that, subject to the 2006 Act, the Company may grant indemnities to directors of associated companies.

The New Articles also contain a provision allowing a director to vote and be counted in the quorum at a board meeting in respect of any resolution concerning indemnification (including loans) by the Company in relation to the performance of his or her duties. This clarifies the ability of the board to adopt indemnities in favour of directors in accordance with the 2006 Act.

9.13 *Directors' fees*

The New Articles increase the aggregate of fees that may be paid to the directors of the Company as a whole for their services from £40,000 to £150,000 per annum. The revised limit provides flexibility for the future size and structure of the Board. Shareholders should note that this aggregate limit does not apply to the salaried executive directors.

9.14 *General*

Several statutory references have been amended in the New Articles to take account of the implementation of provisions in the 2006 Act and repeal of corresponding sections of the 1985 Act. Some definitions have also been changed and additional definitions added to bring them in line with relevant provisions of the 2006 Act. In addition, other miscellaneous non-material changes have been made to reflect current law and practice.

10. MATERIAL CHANGES

Save as set out in this document, there has been no material change in the financial or trading position of the Company subsequent to the publication of the last audited financial statements of the Company for the year ended 31 October 2008.

11. MIDDLE MARKET QUOTATIONS

The following table lists the closing middle market quotation for the Ordinary Shares, as derived from the Daily Official List of the London Stock Exchange, on the first dealing day of each of the six months prior to the date of this document, and on 4 August 2009 (being the latest practicable date prior to posting of this document):

Date	Price per Ordinary Share (p)
2 March 2009	42.0
6 April 2009	36.0
5 May 2009	26.0
1 June 2009	22.5
1 July 2009	18.0
3 August 2009	18.0
4 August 2009	18.0

12. GENERAL

- 12.1 Save for the shareholder agreement entered into between the shareholders of NewCo, there is no agreement, arrangement, or understanding (including any compensation arrangement) between the Concert Party Members and any person acting in concert with any of them and any of the Directors, recent directors of the Company or any person interested or recently interested in Ordinary Shares, Shareholders or recent shareholders of the Company, or any person interested or recently interested in Ordinary Shares having any connection with or dependence upon the Proposals set out in this document.
- 12.2 There is no agreement, arrangement, or understanding (including any compensation arrangement) between Gartmore and any person acting in concert with Gartmore and any of the Directors, recent directors of the Company, Shareholders or recent shareholders of the Company or any person interested or recently interested in Ordinary Shares having any connection with or dependence upon the Proposals set out in this document.
- 12.3 No agreement, arrangement or understanding exists whereby the New Ordinary Shares acquired by the Concert Party pursuant to the authority conferred by the Resolutions will be transferred to any other person.
- 12.4 No agreement, arrangement or understanding exists whereby the New Ordinary Shares acquired by Gartmore pursuant to the authority conferred by the Resolutions will be transferred to any other person.
- 12.5 HW Corporate Finance has given and has not withdrawn its written consent to the inclusion of the financial information contained in Part 2 of this document in the form and context in which it is included, and for the references to it in the form and context in which such references are included.
- 12.6 Investec has given and has not withdrawn its written consent to the issue of this document and the references to it in the form and context in which such references are included.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during usual business hours only on Business Days at the registered office of the Company and at the offices of DLA Piper UK LLP at 3 Noble Street, London EC2V 7EE until the time and date of the General Meeting:

- 13.1 the memorandum and articles of association of the Company and the proposed new articles of association of the Company referred to in Resolution 6;
- 13.2 the memorandum and articles of association of CanCo;
- 13.3 the memorandum and articles of association of NewCo;
- 13.4 the current service contracts and letters of appointments of the Directors referred to in paragraph 2 of this Part 3;
- 13.5 the audited accounts and financial statements of the Group for the financial periods ended 31 October 2006, 2007 and 2008;

- 13.6 the unaudited interim financial statements of the Group for the six months ended 30 April 2009;
- 13.7 the material contracts of the Group referred to in paragraph 6 of this Part 3;
- 13.8 the material contracts of the Concert Party referred to in paragraph 7 of this Part 3;
- 13.9 the written consent of HW Corporate Finance referred to in paragraph 12.5 of this Part 3;
- 13.10 the written consent of Investec referred to in paragraph 12.6 of this Part 3;
- 13.11 the publicly available audited accounts and financial statements of Gartmore for the financial periods ended 31 December 2005, 2006 and 2007; and
- 13.12 this document and the Form of Proxy.

5 August 2009

TRAVELZEST PLC

(Incorporated in England and Wales with registered number 04520457)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Travelzest plc (the “**Company**”) will be held at 3 Noble Street, London EC2V 7EE on 28 August 2009 at 10 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions of which Resolutions 1, 2, 3 and 4 will be proposed as Ordinary Resolutions and Resolutions 5 and 6 will be proposed as Special Resolutions. Defined terms used in this notice, unless otherwise defined, shall have the meaning given to them in the circular to the shareholders of the Company dated 5 August 2009, of which this notice forms part:

ORDINARY RESOLUTIONS

1. THAT, conditional on the passing of Resolution 4, the waivers granted by the Takeover Panel of the obligation which would otherwise arise on each of (a) the Concert Party Members and each person connected with any Concert Party Member and (b) Gartmore and each person connected with Gartmore, to make a general cash offer to the Shareholders for the whole of the enlarged issued share capital of the Company pursuant to Rule 9 of the Takeover Code as a result of the issue of the New Ordinary Shares and, in the case of the Concert Party, the grant of Incentive Options to certain Concert Party Beneficiaries (among others), each as described in the Circular, be and are hereby approved.
2. THAT the authorised share capital of the Company be increased from £1,200,000 to £5,200,000 by the creation of 200,000,000 Ordinary Shares each ranking *pari passu* in all respects with the existing Ordinary Shares.
3. THAT, conditional on the passing of Resolution 2, in substitution for all previous authorities which are hereby revoked, the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the 1985 Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section):
 - (a) up to an aggregate nominal amount of £2,283,400 in connection with the Placing;
 - (b) up to an aggregate nominal amount of £133,836 in connection with the exercise of Options and Warrants; and
 - (c) subject to the passing of Resolution 4, up to an aggregate nominal amount of £414,674.60 in connection with the Management Incentive Arrangement,provided that this authority shall expire (unless previously revoked, varied or extended by the Company in general meeting) at the conclusion of the next annual general meeting of the Company after the passing of this resolution or five years after the passing of the resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired and in this Resolution the expression “relevant securities” and references to the allotment of relevant securities shall bear the same respective meanings as in section 80 of the 1985 Act.
4. THAT, conditional upon the passing of Resolutions 1, 2, 3 and 5, the Management Incentive Arrangement be approved, and that Incentive Options be authorised over a maximum of 20,733,730 Ordinary Shares, at no less than 5p per Ordinary Share, as follows:
 - (a) to Mark Molyneux, Incentive Options over a maximum of 4,146,746 Ordinary Shares;
 - (b) to Jonathan Carroll, Incentive Options over a maximum of 6,220,119 Ordinary Shares;
 - (c) to Jack Fraser, Incentive Options over a maximum of 6,220,119 Ordinary Shares; and
 - (d) to other senior employees of the Group to be selected by the remuneration committee of the Board, Incentive Options over a maximum of 4,146,746 Ordinary Shares.

SPECIAL RESOLUTIONS

5. THAT, conditional upon the passing of Resolution 3, in substitution for all previous authorities which are hereby revoked, the Directors be and they are hereby authorised pursuant to section 95 of the 1985 Act to allot equity securities pursuant to the authority conferred by Resolution 3 as if section 89(1) of the 1985 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
- (a) up to an aggregate nominal amount of £2,283,400 in connection with the Placing; and
 - (b) up to an aggregate nominal amount of £133,836 in connection with the exercise of Options and Warrants; and
 - (c) subject to the passing of Resolution 4, up to an aggregate nominal amount of £414,674.60 in connection with the Management Incentive Arrangement,
- provided that this authority shall expire (unless previously revoked, varied or extended by the Company in general meeting) at the conclusion of the next annual general meeting of the Company and that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired and in this Resolution the expression “equity securities” and references to the allotment of equity securities shall bear the same respective meanings as in section 94 of the 1985 Act.
6. THAT, with immediate effect, the draft regulations produced to the meeting and for the purposes of identification marked “A” and signed by the chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

Registered office:
Farm Cottage
Heath House
Wedmore
Somerset BS28 4UG

By order of the Board
Richard Hall
Company Secretary

Dated: 5 August 2009

Notes:

1. A member entitled to attend and vote at the General Meeting is also entitled to appoint one or more proxies to exercise all of the member's rights to attend, speak and vote instead of him/her including (without limitation) the right to demand a poll. The proxy need not be a member of the Company. Completion and return of a Form of Proxy will not preclude members from attending or voting in person at the General Meeting if they so wish.
2. Where a proxy does not state the number of shares to which it applies (a “blank proxy”) then, subject to the following principles where more than one proxy is appointed, that proxy is deemed to have been appointed in relation to the total number of shares registered in the name of the appointing member (the “member's entire holding”). In the event of a conflict between a blank proxy and a proxy which does state the number of shares to which it applies (a “specific proxy”), the specific proxy shall be counted first, regardless of the time it was sent or received (on the basis that, as far as possible, the conflicting forms of proxy should be judged to be in respect of different shares) and remaining shares will be apportioned to the blank proxy (*pro rata* if there is more than one).
3. Members may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. Where there is more than one proxy appointed and the total number of shares in respect of which proxies are appointed is no greater than the member's entire holding, it is assumed that proxies are appointed in relation to different shares, rather than that conflicting appointments have been made in relation to the same shares. To appoint more than one proxy you will need to complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by contacting the Company's registrar on +44 (0) 1252 82 1390 or by photocopying the form of proxy.
4. When considering conflicting proxies, later proxies will prevail over earlier proxies, and which proxy is later will be determined on the basis of which proxy is last sent (or, if the Company is unable to determine which is last sent, last received). Proxies in the same envelope will be treated as sent and received at the same time, to minimise the number of conflicting proxies. If conflicting proxies are sent or received at the same time in respect of (or deemed to be in respect of) an entire holding, none of them shall be treated as valid. Where the aggregate number of shares in respect of which proxies are appointed exceeds a member's entire holding and it is not possible to determine the order in which they were sent or received (or they were all sent or received at the same time), the number of votes attributed to each proxy will be reduced *pro rata*.
5. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a “vote” in law and will not be counted in the calculation of the votes “For” and “Against” a resolution.
6. To be valid a Form of Proxy, together with a power of attorney or other authority, if any, under which it is executed or a notarially certified copy thereof, must be deposited at the Company's Registrars, Share Registrars Limited, at **Suite E, First Floor, 9 Lion and Lamb Yard, West Street, Farnham, Surrey GU9 7LL**, fax number +44 (0) 1252 719232 by not later than 10 a.m. on 26 August 2009 or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting. A Form of Proxy is enclosed with this notice and instructions for use are shown on the form.

7. In the case of a corporation, the Form of Proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.
8. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
9. The Company, pursuant to Regulation 41 of the CREST Regulations, specifies that only those shareholders registered in the register of members of the Company as at 6 p.m. on 26 August 2009 shall be entitled to attend, speak and vote, whether in person or by proxy, at the General Meeting, in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries in the register of members after 6 p.m. on 26 August 2009 shall be disregarded in determining the rights of any person to attend or vote at the General Meeting.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST personal members, sponsored CREST members and CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action for them.
11. To complete a valid proxy appointment or instruction using the CREST service, the CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must in order to be valid, be transmitted and received by Share Registrars Limited (ID 7RA36) by the latest time(s) for receipt of proxy appointments specified in this notice. The time of receipt of the instruction will be the time (as determined by the time stamp applied to the message by the CREST applications host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will apply to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to ensure that his CREST sponsor or voting service provider(s) take(s)) the necessary action to ensure that a message is transmitted by means of the CREST system by a particular time. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should refer to the sections of the CREST Manual concerning practical limitations of the CREST system and timings.
13. The Company may treat a CREST proxy instruction as invalid as set out in Regulation 35(5)(a) of the CREST Regulations.
14. Resolution 1 will be taken on a poll by the Independent Shareholders (being the Shareholders other than Merchant Securities (in respect of those accounts taking part in the Placing), Gartmore, Universities Superannuation Scheme, Brewin Dolphin Limited (in respect of those accounts taking part in the Placing), Ranjit Singh Anand, Mary Jean Tully, Mark Molyneux and Richard Hall and CanCo) in accordance with the requirements of the Takeover Panel for dispensation from Rule 9 of the Takeover Code.
15. The new articles of association proposed to be adopted pursuant to Resolution 6 (the “**New Articles**”) are available for inspection during normal business hours on Business Days at the registered office of the Company. The New Articles are also available in the ‘Investors’ section of the Company’s website at www.travelzestplc.com. The New Articles will also be available for inspection at the place of the General Meeting from 9 a.m. on the day of the meeting until the conclusion of the meeting.
16. As at the date of the Circular the Company’s issued share capital comprised 30,966,110 existing Ordinary Shares. Each existing Ordinary Share carries the right to one vote at a General Meeting of the Company and therefore the total number of voting rights in the Company as at the date of the Circular is 30,966,110.

