

Date: [15 January 2008]  
On behalf of: Travelzest plc ("Travelzest" or "the Group")  
Embargoed until: 0700 hrs

## **Travelzest plc**

### **Preliminary results for the year to 31 October 2007**

Travelzest, the online travel group offering specialist travel programmes, is delighted to announce its preliminary results for the year to 31 October 2007.

#### **Financial highlights**

- Total transaction value increased 285% to £169.9 million (2006: £44.1 million)
- Turnover increased 101% to £38.5 million (2006: £19.2 million)
- Gross profit margin of £20.6 million increased to 53.5% of turnover (2006: £7.3 million, 37.8%)
- EBITDA (before share based payments of £0.5 million, 2006: £0.2 million) of £4.3 million - 11.1% of turnover (2006: £0.8 million - 4.5% of turnover)
- Underlying profit before tax, goodwill amortisation and share based payments increased 256% to £3.2 million (2006: £0.9 million)
- Normalised\* fully diluted earnings per share increased by 88% to 8.1 pence (2006: 4.3 pence)

#### **Operational highlights**

- Excellent performance from Canadian online retailer, itravel2000.com
- Strong growth achieved in UK specialist tour operators
- Acquisition of four UK specialist tour operators
- Development of holiday.co.uk and flight.co.uk on track

\* Normalised fully diluted earnings per share is before goodwill amortisation (£1.9 million), post tax share based payments charge (£0.3 million) and includes the income effect of conversion of options and warrants (£0.4 million).

Commenting on the results, Chris Mottershead, Chief Executive said

*"I am delighted to be able to report another year of record operating profit. This result has exceeded Management's expectations at the start of the year. We have demonstrated the consistent delivery of the Group's objectives and I believe we are well placed to capitalise on the continued growth of online leisure travel and specialist niche tour operations. We will continue with our strategy in 2008 and look forward to the coming year with confidence."*

#### **Enquiries to:**

**Travelzest plc**  
Chris Mottershead  
[www.travelzestplc.com](http://www.travelzestplc.com)

01442 874322

**Redleaf Communications**  
Emma Kane / Samantha Robbins

020 7822 0200

## **CHAIRMAN'S STATEMENT**

The year to 31 October 2007 has been a very successful one for Travelzest. We have achieved record operating profits, acquired four more tour operators, integrated our Canadian business (bought in October 2006), and substantially improved our operational efficiency. The management team has proven its ability both to improve the underlying operations of acquired businesses and attract new businesses which meet our strict acquisition criteria. With our current portfolio of eight tour operators in growth niche sectors and three online agencies, Travelzest has built a solid platform for future growth in earnings.

### **Results**

During the year we achieved our planned improvement in the operational results of the business and I am pleased to report another record performance. Total transaction value has grown 285% from £44.1 million to £169.9 million. Turnover has more than doubled from £19.2 million to £38.5 million, gross profit has grown 184% to £20.6 million and underlying profit for the year before tax, goodwill amortisation and the impact of FRS20 (Share based payments) has increased by 256% from £0.9 million to £3.2 million. Normalised diluted earnings per share (adding back goodwill amortisation (£1.9 million), the impact of FRS20 (£0.3 million) and the income effect of conversion of share options and warrants (£0.4 million)) increased by 88% from 4.3 to 8.1 pence.

Another important landmark achieved during 2007 was that Travelzest generated an operating profit in both the first half and the second half of the year, thanks to the balanced nature of our portfolio. This balance provides our business with great resilience as the Group is not dependant on any one market, destination or season for its profit and cash generation.

The Group will continue to invest the cash generated from operations into its future development and consequently no dividend is proposed.

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

### **Vision**

We remain committed to our original vision: To be a highly profitable, fast growing travel group for the modern market. We will offer travellers the best available online travel retail experience and a range of outstanding specialist holiday experiences.

### **Strategy**

Travelzest's strategic focus is on the two fastest growing sectors in the travel market; online agency and specialist experience based tour operations. We use the experience of our management team to; firstly, identify and either develop or acquire good opportunities in these sectors; and then secondly, to improve the performance of each business added to the portfolio. Having acquired businesses which meet our strict acquisition criteria, we aim to:

- Rapidly improve the operations of each acquired company to prepare it for growth
- Grow market share and margin for each company through superior marketing and distribution
- Diversify the geographic and seasonal mix of profit streams
- Exploit the potential synergy benefits between the portfolio companies
- Maintain low, decentralised overhead costs

*Customer Trends: Travelzest is Focusing on Growth Sectors*

The travel market continues to evolve and change significantly, creating exciting new opportunities for growth. The internet is one of the main catalysts for change. At one end of the spectrum, it provides opportunities for budget travellers to buy flights and accommodation directly from the suppliers, 'dynamically packaged', to suit their needs. At the other end, it provides greater opportunities for discerning travellers to find exactly the right travel or holiday experience to suit their preferences. Customers are already depending on the internet to research their holidays, and increasingly using it to book. This is a major opportunity for Travelzest, where we have online agency businesses with potential to take an increasing share of this growth sector, both in the UK and Canada.

Fundamental consumer tastes are also changing, with a growing preference for diverse types of holiday experience such as cruising, activity holidays, adventures, nature and wild life and escorted tours. City, beach and traditional packages will all remain important, but the higher levels of growth will be in the more specialist holiday sectors. These sectors also tend to attract less price-sensitive customers, prepared to pay a premium for a great holiday experience. Holidays like this are also less likely to be 'unbundled' and are harder to copy. This is the second major opportunity area for Travelzest, where we have already acquired eight specialist tour operators across a variety of experience types and geographical locations. The growth in online booking, combined with the underlying growth of the holiday type, make the potential of these businesses very appealing.

*Portfolio approach increases upside and minimises downside*

Travelzest operates two business models; the agency business that relies on volume and cross selling, and the specialist tour operator business that delivers high margin on smaller volumes. Our business model is also lower risk than traditional tour operators, in that we have almost no fixed commitments for flights and beds. We have also diversified both the source and destination markets, and have an excellent balance between winter and summer seasons.

*Best practice operations delivers growth in earnings*

Most of the value being created is achieved through improving operations and marketing, enabling profitable growth. For the tour operating businesses this may include changes to yield management, cost reduction, bringing more sales online, extending the product range, search engine optimisation, or invigorating marketing and PR.

*Identifying good opportunities*

Travelzest will continue to acquire online agency businesses and niche tour operators. We are constantly assessing potential targets using a very strict set of criteria. For tour operators, these include the clarity of their market proposition, online presence, and,

most importantly, potential to grow. For online agencies, we are looking for great brands (itravel2000.com is one of Canada's leading online travel retailers), unique attributes (e.g. holiday.co.uk is one of the top free listed websites for popular holiday search terms in Google), and scalability.

## **Acquisitions**

The Group successfully acquired four businesses during the year – Tapestry Collection (November 2006), Wow House Company (December 2006), Captivating Cuba (August 2007) and JMB Travel Consultants (September 2007). Overall, I am pleased with the way in which these acquisitions have performed.

## **People**

The Travelzest concept was created by Chief Executive Chris Mottershead early in 2005. He was formerly Managing Director of TUI UK, which included Thomson Holidays and Lunn Poly, and is a leading travel industry expert with a proven record of delivery. Chris has again worked tirelessly this year, leading and building the business. As the company has developed in line with his original plan, Chris has decided to waive his right to any further issues of warrants in order to avoid dilution for new investors.

Chris, together with Finance Director Colin McKinlay and Distribution Director Nishma Robb, have extensive experience of all aspects of this business. Core capabilities that are fundamental to Travelzest's success include financial discipline, marketing strategy and execution, online distribution, and a track record in the UK and Canada. Their reputations and relationships across the industry are a key asset.

While excellent senior leadership is essential to deliver a successful business, the enthusiasm, passion for great customer service and commitment of everyone who works for us is equally important. I would like to thank everybody in the Group for their continued hard work and dedication.

## **Outlook**

Our ambition for 2007 was to acquire and start businesses that had the potential to grow quickly under our ownership, as well as improving the businesses we had already acquired. I am pleased that we have done this successfully.

Our specialist travel businesses predominantly serve older and more affluent customers who are less affected by economic uncertainty. The Group also offers holidays to a broad range of destinations, and is not reliant on a single domestic market or season. Our largest business, itravel2000.com is based in Canada, which economically is currently enjoying prosperity and provides considerable potential. These factors, combined with the quality of proven Management, let us look forward with confidence to 2008.

**Mark T J Molyneux**  
**Chairman**

## **CHIEF EXECUTIVE'S STATEMENT**

I am very pleased to report that Travelzest has exceeded the board's financial expectations for the financial year and achieved the operational objectives it set itself at the beginning of the year. Consistent with our vision, strategy and priorities for 2007, these were; first, to improve the performance of the individual businesses within the Group; second, to identify and acquire other businesses with great potential for further growth in profit; and finally, to attract and recruit the very best travel professionals in the industry. It has been a very busy year for everyone involved, and I would like to thank them all for their tremendous effort.

### **Continuing businesses – online and agency**

#### *itravel2000.com*

The acquisition of itravel2000.com in October 2006 significantly changed the size and shape of the Group, accounting for 33% of turnover in 2007. It is one of the largest pure online retailers in Canada, with great potential to expand from its leading position in Ontario into other provinces. The Canadian market is counter cyclical to the UK, and as a result the business generates the majority of its profits and cash in the winter period. During 2007 it successfully introduced its own dynamic packaging system and another planned area of growth is to create a link to the specialist content provided by the UK tour operating businesses, expanding the accessibility of specialist holidays to the Canadian market. I am particularly pleased with the performance of this business which surpassed its maximum earnout target in 2007 and is well placed to double its profits within a 3 to 5 year period.

#### *Fair's Fare*

Fair's Fare was established in 1995 and is one of the UK's leading firms of airfare analysts, offering a unique travel planning service to both private and business clients. The company seeks out the very best financial options, primarily for long-haul travellers, in the first and business class cabins of the world's leading airlines. Travelzest acquired the business in June 2006, and its founder, Ranjit Anand, has stayed with the business to develop further the potential opportunity. Since then, the company has won several new contracts and continues to grow steadily.

#### *Holiday Express*

Holiday Express, which operates the websites holiday.co.uk and flight.co.uk, has undergone a year of extensive re-development. The goal for holiday.co.uk is to become one of the leading online travel agencies in the UK. After a significant investment in building the team and introducing best-in-class technology on both sites, they will be re-launched in early 2008. This best-in-class technology will provide online customers an excellent search, dynamic packaging, and booking experience, which, in turn, should dramatically improve the conversion rates on both sites. Robin Sutherland joined in April 2007 as Managing Director. He was formerly Director of Retail at Expedia.co.uk, and brought with him invaluable experience to define and drive our continuing development of the holiday.co.uk and flight.co.uk portals. With the right technology and management now in place, a marketing campaign is planned for 2008 to grow the business.

## **Continuing businesses – tour operations**

### *VFB Holidays*

VFB Holidays, the Group's founding business, provides a range of specialist holidays principally to France. The core revenue of the business has traditionally been generated from the sale of French cottage holidays, but over the last few years the range has been expanded to include five new types of holiday, including new destinations and river cruises. This, along with other operational improvements, allowed the business to improve its profit from breakeven in 2004 to another record year in 2007. This business is now approaching its £1 million operating profit target set at the inception of the Travelzest concept in 2005.

### *Best of Morocco*

Best of Morocco specialises in high quality, tailor-made holidays to Morocco for individuals or small groups. It is also the premier agent for the Marathon des Sables, a foot race that takes place in the Sahara in April each year. The combination of these activities creates a sales cycle that generates profits in the winter and summer months. Best of Morocco was acquired in November 2005 and following the appointment of a new Managing Director has completed two successful years generating an increase in sales over the period of almost 20% and an increase in operating profit of 40%.

### *Peng Travel*

Peng Travel was formed in 1971 to arrange naturist holidays overseas for the UK market. Since then, it has grown to become Britain's biggest naturist tour operator and has unrivalled experience of its market. Operating in a very specialised and growing niche, it enjoys exceptional repeat business from its loyal clientele. Since its acquisition by Travelzest in May 2006 a new management team has been appointed and an improved online experience has attracted a healthy growth in new customers.

### *Faraway Holidays*

Faraway Holidays, a specialist in luxury tailor-made holidays and tours to Vietnam, Cambodia, Bali and Thailand, was set up by Travelzest in August 2006. Since inception Faraway Holidays has achieved turnover in excess of £1.5 million.

## **Acquisitions**

During the year, Travelzest added four new businesses to the portfolio of UK specialist tour operators. These were Tapestry Collection, Wow House Company, Captivating Cuba and JMB Travel Consultants.

### *Tapestry Collection*

The Tapestry Collection provides through a knowledgeable and experienced team, high quality and bespoke programmes in Turkey, Crete and Cephalonia. The business has a very strong reputation in these markets and a loyal customer base. It is performing well and I am particularly pleased to be able to report that the business has generated a small profit in its first nine months of operation.

### *Wow House Company*

Wow House Limited, trading as Wow House Company, was acquired in December 2006. It was initially set up to capitalise on the growing popularity of renting large, prestigious houses for corporate events and gatherings of families and friends, either for short durations and special occasions or longer holidays. The current portfolio consists of 25 properties across England, Scotland and Ireland.

### *Captivating Cuba*

Captivating Cuba, an award-winning Cuba specialist, was acquired in August 2007. Each member of the sales team has a deep knowledge of Cuba, which they use to provide detailed advice on planning a holiday in that country. With over 200 properties across the Caribbean island, holidays can be tailor-made to meet customer's individual requirements and ensure they have the ideal experience. Escorted tours are also available. Although it currently sells holidays only to the UK market, Canadians represent the largest number of visitors to Cuba and there are strong synergies with Travelzest's Canadian business, [itravel2000.com](http://itravel2000.com). We expect to see significant operational improvements in its first full year of operation under the Travelzest umbrella following the launch of its new website in January 2008.

### *JMB Travel Consultants*

JMB Travel is a leading UK specialist in opera holidays offering an extensive range of destinations noted for their opera, classical music concerts and music festivals. Travelzest acquired the business in September 2007. It has unrivalled experience in catering for the particular needs of the opera and music lover and has connections with every major opera house and music festival in Europe and a small number in America. Existing management will stay with the business and together with VFB will extend the offering to a wider audience through the VFB customer database.

## **Group performance**

The increase in total transaction value of 285% to £169.9 million from £44.1 million is mainly attributed to our online agency businesses which have improved from £28.5 million to £151.3 million due principally to the inclusion of a full year's trading of our Canadian business, [itravel2000.com](http://itravel2000.com). The remaining increase in total transaction value of £2.9 million or 18% from £15.6 million to £18.5 million relates to the impact of growth in the Group's specialist tour operators and acquisitions during the year.

Turnover has more than doubled from £19.2 million to £38.5 million with an increase of £16.4 million or 460% coming from the Group's online agency businesses. Our Canadian business generated 33% of the Group's turnover.

I am also pleased to report that the gross profit percentage has increased to 53.5% from 37.8% in the previous year. This again reflects the inclusion of a full year of [itravel2000.com](http://itravel2000.com) and further improvements in the margins in the Group's tour operating companies.

The number of passengers carried by the Group's tour operators and booked through our online distribution channels, during the period these companies were part of the Group, increased by over 180% to over 277,000.

At the end of the financial year the Group employed 308 staff compared with 126 staff at the end of the previous year.

## **Financing**

During the year the Group issued 1.06 million new ordinary shares for cash at a premium of 143 pence to institutional and other investors, raising approximately £1.5 million. The proceeds were used to enable the Group to continue its strategy of the acquisition of specialist tour operators as the opportunities arose.

In addition the Group repaid £250,000 of its £11 million debt facility in accordance with the terms of the facility.

## **International Financial Reporting Standards (“IFRS”)**

As an AIM listed business Travelzest will report under IFRS in the financial year ending 31 October 2008 with comparative information. A detailed review has been undertaken in planning for the adoption of IFRS. In 2007 the Group's results include for the first time the effect of FRS 20 Share based payments. In future years the adoption of FRS20 will introduce volatility to the Group's reported operating profit. The normalised result before share based payments will be unaffected by the adoption of FRS20.

The application of IFRS will result in a number of changes in accounting policy most notably:

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

IAS 38 “Intangible Assets” requires that expenditure on advertising and promotions is written off as incurred and computer software, not an integral part of the related hardware, be treated as an intangible asset.

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

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

The Group will present its interim results for the six months to 30 April 2008 in accordance with IFRS and further information explaining the financial impact of transition to IFRS will be presented in due course.

## **Summary**

After two years of acquiring, and improving eleven businesses, our 2007 results demonstrate the value of our strategy. Travelzest now has three online travel agencies which have the potential to grow substantially. We have a rapidly growing and profitable Canadian business. We also have a portfolio of profitable, high growth, specialist tour operators.

Our priorities for 2008 are clear; firstly, to complete the introduction of leading technology in our online businesses to generate strong growth; secondly, to continue to improve operations of our specialist tour operators; and thirdly, to acquire further brands in Europe and North America that fit our strategy and strict selection criteria.

We look forward to the coming year with confidence.

**Chris Mottershead**  
**Chief Executive**

## Consolidated profit and loss account

Years ended 31 October

	2007 Unaudited £000's	2006 Restated £000's
	<b>Note</b>	
<b>Total transaction value</b>	<b>2</b>	
Continuing operations	167,569	26,147
- Acquisitions	2,284	17,936
	<u>169,853</u>	<u>44,083</u>
<b>Group turnover</b>	<b>2</b>	
Continuing operations	36,183	13,840
- Acquisitions	2,284	5,349
	<u>38,467</u>	<u>19,189</u>
Cost of sales	<u>(17,903)</u>	(11,937)
Gross profit	<u>20,564</u>	7,252
Administrative expenses	<u>(19,113)</u>	(7,214)
<b>Operating profit/(loss)</b>		
Continuing operations	1,936	(893)
- Acquisitions	(485)	931
	<u>1,451</u>	<u>38</u>
	<b>3</b>	
Net interest (payable) / receivable	<u>(577)</u>	152
<b>Profit on ordinary activities before taxation</b>	<u>874</u>	<u>190</u>
Tax on profit on ordinary activities	<u>(1,000)</u>	(233)
	<u>(126)</u>	<u>(43)</u>
<b>Loss for the financial year</b>		
<b>Loss per share</b>	<b>5</b>	
Basic	<u>(0.52)p</u>	(0.42)p
Diluted	<u>-</u>	<u>-</u>

## Consolidated balance sheet

	31 October 2007 Unaudited £000's	31 October 2006 Restated £000's
<b>Fixed assets</b>		
Intangible fixed assets	36,871	36,106
Tangible assets	2,735	2,016
	<u>39,606</u>	<u>38,122</u>
<b>Current assets</b>		
Stock	2	2
Debtors	7,921	3,496
Cash at bank and in hand	10,480	10,989
	<u>18,403</u>	<u>14,487</u>
<b>Creditors: amounts falling due within one year</b>	<u>(13,453)</u>	<u>(8,377)</u>
<b>Net current assets</b>	<u>4,950</u>	<u>6,110</u>
<b>Total assets less current liabilities</b>	<u>44,556</u>	<u>44,232</u>
<b>Creditors: amounts falling due after more than one year</b>	(14,836)	(18,198)
<b>Provisions for liabilities and charges</b>		
Deferred taxation	(223)	(250)
	<u>29,497</u>	<u>25,784</u>
<b>Capital and reserves</b>		
Called-up equity share capital	350	313
Share premium account	14,233	11,632
Exchangeable shares	10,365	10,003
Merger reserve	2,320	2,320
Profit and loss account	2,229	1,516
<b>Shareholders' funds</b>	<u>29,497</u>	<u>25,784</u>

## Consolidated cash flow statement

Years ended 31 October

	Note	2007 Unaudited £000's	2006 £000's
<b>Net cash inflow from operating activities</b>	<b>6</b>	<b>2,825</b>	1,520
<b>Returns on investments and servicing of finance</b>			
Interest received		382	217
Interest paid		(959)	(65)
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		<b>(577)</b>	152
<b>Taxation</b>		<b>(236)</b>	(323)
<b>Capital expenditure</b>			
Purchases of tangible fixed assets		(1,069)	(409)
<b>Net cash (outflow) from capital expenditure</b>		<b>(1,069)</b>	(409)
<b>Acquisitions</b>			
Purchase of subsidiary companies		(3,604)	(16,730)
Net cash acquired with subsidiary		865	2,998
<b>Net cash (outflow) for acquisitions</b>		<b>(2,739)</b>	(13,732)
<b>Cash (outflow) before financing</b>		<b>(1,796)</b>	(12,792)
<b>Financing</b>			
Issue of equity share capital		1,537	7,317
Loans		(250)	10,741
<b>Net cash inflow from financing</b>		<b>1,287</b>	18,058
<b>(Decrease)/increase in cash</b>	<b>6</b>	<b>(509)</b>	5,266

## Statement of total recognised gains and losses

	<b>31 October 2007 Unaudited £000's</b>	31 October 2006 Restated £000's
Loss for the financial year	<b>(126)</b>	(43)
Exchange difference arising on consolidation	<b>358</b>	42
Total gains and losses recognised in the period	<b>232</b>	(1)
Prior year adjustment	<b>(150)</b>	-
Total gains and losses recognised since the last financial statements	<b>82</b>	(1)

## Notes

### 1 Basis of preparation

The preliminary financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2006 annual report and financial statements, except for the introduction of FRS 20 (Share based payments) which has resulted in the 2006 result being reduced by £150,000.

### 2 Segmental and geographical

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

<b>Total transaction value</b>	<b>31 October 2007</b>	31 October 2006
	<b>£000's</b>	£000's
Tour operations	<b>18,518</b>	15,631
Travel agency:		
Direct sales	<b>127</b>	349
Agency sales	<b>151,208</b>	28,103
	<b>169,853</b>	44,083

  

<b>Turnover</b>	<b>31 October 2007</b>	31 October 2006
	<b>£000's</b>	£000's
Tour operations	<b>18,518</b>	15,631
Travel agency:		
Direct sales	<b>127</b>	349
Agency sales	<b>19,822</b>	3,209
	<b>38,467</b>	19,189

The turnover and net assets employed were attributable to the principal activities of the Group, which originate in:

	<b>31 October 2007</b>		31 October 2006	
	<b>Turnover</b>	<b>Net assets</b>	Turnover	Net assets
	<b>£000's</b>	<b>£000's</b>	£000's	Restated £000's
United Kingdom	<b>25,901</b>	<b>16,397</b>	18,658	24,650
Canada	<b>12,566</b>	<b>13,100</b>	531	1,134
	<b>38,467</b>	<b>29,497</b>	19,189	25,784

### 3 Operating profit

Operating profit is stated after charging/(crediting):

	<b>31 October 2007 £000's</b>	31 October 2006 £000's
Amortisation of goodwill	1,883	459
Depreciation of owned fixed assets	547	147
(Profit)/Loss on disposal of fixed assets	(2)	1
Auditors' remuneration - group:		
Audit fees	130	74
Taxation	19	12
Auditors' remuneration - company:		
Audit fees	18	5
Taxation	3	2
Net loss on foreign currency translation	58	4
Operating lease costs:		
Office equipment	-	44
Vehicles	26	14
Property	100	189
	<hr/>	<hr/>

### 4 Tax on profit on ordinary activities

Analysis of the charge for the year

	<b>31 October 2007 £000's</b>	31 October 2006 Restated £000's
Current tax:		
UK corporation tax based on the results for the year at 30% (2006 - 30%)	149	185
Overseas taxation	1,178	69
(Over)/Under provision in prior year	(300)	27
Total current tax	<hr/> 1,027	<hr/> 281
Deferred tax:		
Origination and reversal of timing differences	(27)	(48)
Tax on profit on ordinary activities	<hr/> <b>1,000</b> <hr/>	<hr/> 233 <hr/>

## 5 Loss per share

Basic earnings per share is based on an equity loss of £126,000 (2006 – loss of £43,000 (restated)) and 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 diluted earnings per share is based on average fully diluted share capital of shares of 30,626,763 (2006 – 13,312,212 shares) derived below.

	Average number
Issued ordinary shares and exchangeable shares	24,231,242
Share options	1,149,075
Warrants	5,246,446
	<u>30,626,763</u>

The normalised pre share based payments earnings per share of 8.1p is based on and equity loss of £126,000, adding back amortisation of goodwill (£1,883,000), post tax share based payments (£343,000) and the income effect of conversion of share options and warrants (£400,000).

## 6 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	<b>31 October 2007</b>	31 October 2006 Restated
	<b>£000's</b>	£000's
Operating profit	1,451	38
Amortisation	1,883	459
Depreciation	547	147
(Profit)/loss on disposal of fixed assets	(2)	1
(Increase)/decrease in stock	(1)	1
Decrease in debtors	(3,141)	(571)
Share based payments	481	214
Increase in creditors	1,607	1,231
Net cash inflow from operating activities	<u>2,825</u>	<u>1,520</u>

Reconciliation of net cash flow to movement in net funds

	<b>31 October 2007</b>	31 October 2006
	<b>£000's</b>	£000's
(Decrease)/increase in cash in the period	(509)	5,266
Movement in bank loan	250	(10,741)
Exchange adjustment	(119)	
Change in net funds	<u>(378)</u>	<u>(5,475)</u>
Net funds at 1 November 2006	<u>248</u>	<u>5,723</u>
Net debt at 31 October 2007	<u>(130)</u>	<u>248</u>

Analysis of changes in net funds

	At 1 Nov 2006	Exchange Adjustment	Cash flows	At 31 Oct 2007
	£000's	£000's	£000's	£000's
Net cash:				
Cash in hand and at bank	10,989	-	(509)	10,480
Bank loan	(10,741)	(119)	250	(10,610)
Net funds	<u>248</u>	<u>(119)</u>	<u>(259)</u>	<u>(130)</u>

## **7 Publication of non statutory accounts**

The financial information set out in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 31 October 2006 or 2007. The financial information for the year ended 31 October 2006, as restated, is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s.237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 31 October 2007 will be finalised on the basis of the information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies.