

31 July 2009

**Travelzest plc (“Travelzest” or the “Company”)  
Interim results for the six months to 30 April 2009**

Travelzest plc, an integrated retail and wholesale travel group offering specialist travel programmes, is pleased to announce its interim results for the six months ended 30 April 2009.

**Financial highlights**

- Total transaction value increased 20.6% to £108.8 million (2008: £90.2 million)
- Group Revenue increased by 40.7% to £22.9 million (2008: £16.3 million)
- Gross profit increased by 9.1% to £11.5 million (2008: £10.5 million)
- Profit before interest, tax and separately disclosed items (as disclosed in note 7 to the interim results) (EBITA) increased by 42.3% to £2.8 million (2008: £1.9 million)
- Profit before tax of £0.9 million (2008: Loss of £0.1 million)
- Basic earnings per share increased to 0.36 pence (2008: Loss of 1.77 pence per share). Normalised diluted earnings per share (adding back separately disclosed items and intangible asset amortisation) decreased by 1.2% to 4.18 pence per share (2008: 4.23 pence per share)
- Net debt of £11.7 million (2008: £5.6 million, fully drawn down bank facility of £16.0 million renegotiated June 2008)

**Operational highlights**

- Canadian operations continue to show strong revenue growth with itravel2000's continued expansion into regional markets, the expansion of product lines, and the inclusion of The Cruise Professionals Limited results for the first time
- UK operations performed slightly below management's expectations due to lower outbound travel by UK residents to Euro based countries. However UK operations are showing some improved performance in certain groups, with Tapestry Collection showing the strongest performance for the period

**Events after the period end**

- Appointment of new senior executive team for the group with Jonathan Carroll (formerly President of itravel2000) assuming the role of Chief Executive and Jack Fraser (formerly Chief Financial Officer and Head of Corporate Development for itravel2000) assuming the role of Chief Operating Officer and Financial Director
- A new corporate vision and strategic initiatives has been launched with a strong focus on revenue growth, resource productivity, and operating profitability

**Banking Facilities**

The Group announces that it is currently re-negotiating its existing banking facilities with its debt facility provider who remains supportive of the Group. In connection with these negotiations, the Company also announces that it is contemplating a fundraising through a placing of new ordinary shares to certain existing shareholders and Directors. A further announcement will be made in due course.

**Commenting on the results, Mark Molyneux, Chairman, said:**

*“We experienced continued growth in our Canadian operations during these very difficult economic times. Following their appointment to the Board, we are expecting Jonathan Carroll and Jack Fraser to provide the same leadership and strength they have shown in Canada with itravel2000 to the Travelzest group as a whole.*

*We continue to be cautious about our second half outlook due to the limited visibility we have with the later booking market that exists. However we are seeing some promising signs in the group and we continue to*

*leverage off of these as well as look at new ways to control costs and be innovative in our strategies for growth.”*

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## CHAIRMAN'S INTERIM STATEMENT

### Overview

Notwithstanding the difficult economic environment, Travelzest continued to grow Revenue and Profit in the first half of 2009 compared to the same period in 2008. The Board is pleased with the Group's continued progress in the Canadian market and the capture of additional market share.

Following the period end, Executive Management changed with Jonathan Carroll taking on the role of Chief Executive and Jack Fraser that of Group Chief Operating Officer and Financial Director. The growth of itravel2000, the Groups largest business, has been strong under their leadership and we look forward to the new team developing and implementing new strategies for growth.

### Results

The Group results benefited from the inclusion of The Cruise Professionals for the first time in the first half. Group transaction value increased by 20.6% to £108.8 million from £90.2 million, revenue increased by 40.7% to £22.9 million from £16.3 million last year, and operating profit increased by 506.6% to £1.6 million from £0.3 million.

Separately disclosed items decreased by 60.4% to £0.5 million (2008: £1.3 million) with the majority of the amount relating to restructuring costs and legal matters that will not reoccur.

As a result, the profit before interest, tax, separately disclosed items and intangible asset amortisation increased by 40.3% from £1.9 million to £2.6 million.

Basic earnings per share has increased to 0.36 pence (2008: Loss of 1.77 pence per share). Normalised diluted earnings per share (adding back separately disclosed items and intangible asset amortisation) has fallen by 1.2% to 4.18 pence per share (2008: 4.23 pence per share).

Net debt was £11.7 million as at 30April 2009 (2008: £5.6 million, fully drawn down bank facility of £16.0 million renegotiated June 2008).

### 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 opportunities for growth in the following areas:

- leveraging the Group's existing on-line capabilities. The Group has made significant investment in its on-line capabilities and a new inventory management system in Canada. The Directors believe that itravel2000's on-line 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;
- expanding the 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 also have commenced a cost reduction programme within the Group.

## **Exceptional costs**

The Group has incurred exceptional costs of £0.5 million in the six months to 30 April 2009 (year to 31 October 2008: £3.6 million). The Group anticipates that it will incur additional exceptional costs in the second half of the financial year in relation to, inter alia, recent changes in management, premises move costs, management compensation and costs related to the potential fundraising and negotiations with the Company's debt funders as described below.

## **Banking Facilities**

The Group announces that it is currently re-negotiating its existing banking facilities with its debt facility provider who remains supportive of the Group. In connection with these negotiations, the Company also announces that it is contemplating a fundraising through a placing of new ordinary shares to certain existing shareholders and Directors. A further announcement will be made in due course.

## **Outlook**

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.

## Condensed consolidated income statement (unaudited)

		Six months ended 30 April		Year ended
	Notes	2009	2008	31 October
		£'000s	£'000s	2008
				£'000s
<b>Continuing operations</b>				
Total transaction value		108,754	90,158	181,945
Revenue	2	22,940	16,295	44,318
Cost of sales		<u>(11,444)</u>	<u>(5,759)</u>	<u>(21,953)</u>
Gross profit		11,496	10,536	22,365
Administrative expenses		(9,943)	(10,280)	(24,687)
Operating profit/(loss)		<u>1,553</u>	<u>256</u>	<u>(2,322)</u>
Analysed as:				
Underlying operating profit		2,648	1,887	5,140
Separately disclosed items	7	(533)	(1,345)	(3,625)
Amortisation of intangible assets		(562)	(286)	(3,837)
		<u>1,553</u>	<u>256</u>	<u>(2,322)</u>
Finance income		26	128	175
Finance costs		(709)	(474)	(1,445)
Profit/(loss) on ordinary activities before taxation		<u>870</u>	<u>(90)</u>	<u>(3,592)</u>
Income tax expense		(766)	(391)	(1,339)
Profit/(loss) for the period		<u>104</u>	<u>(481)</u>	<u>(4,931)</u>
Basic earnings/(loss) per share	4	0.36p	(1.77)p	(17.19)p
Fully diluted earnings per share	4	0.28p	(1.77)p	(17.19)p

## Condensed consolidated statement of recognised income and expense (unaudited)

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

## Condensed consolidated balance sheet (unaudited)

	Notes	30 April		31 October
		2009	2008	2008
		£'000s	£'000s	£'000s
<b>ASSETS</b>				
<b>Non-current assets</b>				
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>
<b>Current assets</b>				
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>
<b>Total assets</b>		<u><u>61,059</u></u>	<u><u>59,715</u></u>	<u><u>59,622</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent company</b>				
Share capital	5	619	350	407
Share premium	5	29,815	14,233	16,779
Exchangeable shares	5	-	12,735	12,735
Merger reserve	5	2,320	2,320	2,320
Translation and hedge reserve	5	(2,592)	1,538	(1,985)
Retained earnings	5	(257)	3,725	(291)
<b>Total equity</b>		<u>29,905</u>	<u>34,901</u>	<u>29,965</u>
<b>Non-current liabilities</b>				
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>
<b>Current liabilities</b>				
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>
<b>Total liabilities</b>		<u><u>31,154</u></u>	<u><u>24,814</u></u>	<u><u>29,657</u></u>
<b>Total equity and liabilities</b>		<u><u>61,059</u></u>	<u><u>59,715</u></u>	<u><u>59,622</u></u>

## Condensed consolidated cash flow statement (unaudited)

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

## Notes to the condensed interim financial statements

### 1 Basis of preparation

The financial information for the year ended 31 October 2008 set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 October 2008 have been filed with the Register of Companies.

The auditor's report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985".

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

#### Impairment

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

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

#### Business combinations

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

## **Judgements and estimates (continued)**

### 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.

**Derivative financial instruments and hedging (continued)**

The effective part of changes in the fair value of derivatives drawn to hedge the cash flow and qualify as cash flow hedges are 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 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.

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 is to maintain its covenants resulting from the current facility agreement.

## **Foreign Currency Management**

The Group's key financial market risk is in relation to foreign currency rate. 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 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 Group generally hedges its foreign currency exposures according to the 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.

## New and amended standards as yet not adopted by the Europe 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.

## 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		Year ended 31 October 2008 £'000s
	Six months ended 30 April		Year ended 31 October	Six months ended 30 April		Year ended 31 October	Six months ended 30 April		
	2009 £'000s	2008 £'000s	2008 £'000s	2009 £'000s	2008 £'000s	2008 £'000s	2009 £'000s	2008 £'000s	
<b>Revenue</b>	5,741	6,133	21,341	17,199	10,162	22,977	22,940	16,295	44,318
<b>Results</b>									
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)
<b>Profit/(loss) before finance items</b>							<b>1,553</b>	256	(2,322)
Finance income							26	128	175
Finance costs							(709)	(474)	(1,445)
<b>Profit/(loss) before tax</b>							<b>870</b>	(90)	(3,592)
Tax							(766)	(391)	(1,339)
<b>Profit for the year</b>							<b>104</b>	(481)	(4,931)

## 2 Secondary segments (continued) – Geographical analysis

	Revenue			Segment assets		
	Six months to 30 April		Year ended 31 October	Six months to 30 April		Year ended 31 October
	2009	2008	2008	2009	2008	2008
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
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
<b>Group</b>	<b>22,940</b>	<b>16,295</b>	<b>44,318</b>	<b>61,059</b>	<b>59,715</b>	<b>59,622</b>

## 3 Income tax expense

The income tax expense relates primarily to overseas taxation of £483,000 (2008: £834,000), this represents payments on account of the expected rate for the full year.

## 4 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.

	2009 £'000s	2008 £'000s	2008 £'000s
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of parent	104	(481)	4,931
	<b>Millions</b>	<b>Millions</b>	<b>Millions</b>
Weighted average number of shares for basic earnings per share	28.7	27.2	28.7

## 5 Consolidated statement of changes in equity

	Share capital & exchangeable shares £'000	Share premium £'000s	Merger reserve £'000s	Translation & hedge Reserve £'000s	Retained earnings £'000s	Total £'000s
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	<b>619</b>	<b>29,815</b>	<b>2,320</b>	<b>(2,592)</b>	<b>(257)</b>	<b>29,905</b>

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. The shares are issued at 94.5p and 126p respectively.

## 6 Notes to the condensed cash flow statement

	Six months ended 30		Year ended
	2009	April	31 October
	£'000s	2008	2008
		£'000s	£'000s
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>

## 7 Separately disclosed items

During the period the Group recognised a one-off cash charges 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 an £140,000 relating to the closure and restructure of Faraway Holidays.

Analysed as:	Six months ended 30 April		Year ended
	2009	2008	31 October
	£'000s	£'000s	2008
			£'000s
Termination of rights under warrant agreement	-	955	956
Share based payment charge	(70)	140	298
Aborted acquisition costs	-	250	316
Ittravel move and other new project start up costs	-	-	693
Aborted takeover costs	-	-	125
Holiday Express non-recurring costs	-	-	1,228
Legal non-recurring costs	310	-	-
Head office non-recurring costs	143	-	-
Peng office relocation	10	-	-
Faraway Holiday restructuring	140	-	-
<b>Total share based payment</b>	<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). The full year charge in respect of the year ended 31<sup>st</sup> October 2008 included impairment of Holiday Express (UK) Limited of £1,100,000.

## 8 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.

<b>Analysed as:</b>	<b>Six months ended 30 April</b>		<b>Year ended</b>
	<b>2009</b>	<b>2008</b>	<b>31 October</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>2008</b>
			<b>£'000s</b>
Assets arising from financial derivative instruments	<u>809</u>	<u>848</u>	<u>52</u>
Liabilities arising from financial derivative instruments	<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 assets and liabilities has been determined by relevant active market valuations obtained from Group bankers and comprise a total asset on Euro forward contracts of £809,000 and a liability on US dollar forward contracts of £15,000 along with £871,000 arising from interest rate swaps to mitigate against exposure to interest rate risk, 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.