

5 August 2009

Travelzest plc ("Travelzest" or the "Company")

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

The board of Travelzest today announces that it proposes to raise approximately £5.7 million (before expenses) through the issue of up to 114,170,000 New Ordinary Shares at 5 pence per New Ordinary Share.

Key details:

- Placing to raise approximately £5.7 million at 5 pence per New Ordinary Share. The Placing has not been underwritten.
- The Company has also entered into the Amended Facility Agreement which is subject to, and conditional on, Admission.
- The Directors believe that it is unlikely that they would obtain the necessary funding required to renegotiate its existing Debt Facility from other sources.
- The New Ordinary Shares represent approximately 369 per cent. of the Issued Share Capital.
- Admission of the New Ordinary Shares is expected to take place on 1 September 2009.

It is expected that the Company will post a circular to Shareholders today with details of the Proposals and giving notice of the General Meeting, which is expected to be held on 28 August 2009.

For further information contact:

Travelzest plc 0207 887 1978
Mark Molyneux / Jack Fraser / Peter Thomson

Investec Investment Banking 0207 597 5970
Martin Smith/Duncan Williamson

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

Introduction

The Board of Travelzest today announces 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.

The Company has today 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 constitutes a related party transaction under the AIM Rules.

The Concert Party Members are deemed to be acting in concert with each other. As at the date of this announcement, 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 announcement, 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 below. 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 the appropriate resolution 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.

A General Meeting of the Company is expected to be held on 28 August 2009 at which the resolutions necessary to implement the Proposals will be proposed.

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 itravel2000 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 itravel2000.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 itravel2000 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."

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 itravel2000'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.

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.

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 below. 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 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.

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.

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, at the date of this announcement 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 announcement	% 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 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.	- ¹	- ¹	8,000,000 ²	8,000,000 ¹	5.5 ^{1,2}	Nil	Nil	5.1

Carroll									
Jonathan Carroll				8,000,000 ¹					
Carroll	- ¹	- ¹	8,000,000 ²		5.5 ^{1,2}	Nil	Nil		5.1
Jeffrey D. MacKenzie				8,000,000 ¹					
Jack Fraser	- ¹	- ¹	8,000,000 ²		5.5 ^{1,2}	Nil	Nil		5.1
Elizabeth Carroll	Nil	Nil	8,000,000 ²	8,000,000 ²	5.5 ²	Nil	Nil		5.1
J. Brian Hewlitt	- ¹	- ¹	Nil	- ¹	- ¹	Nil	Nil		- ¹
	- 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. 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).

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.

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.

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. 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.

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.

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.

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, 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.

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.

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.

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.

Banking Facilities

The Company 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. 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.

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. The 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.

In this announcement, 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
"Barclays"	Barclays Bank plc
"Board" or "Directors"	the board of directors of the Company from time to time
"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")
"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 Places
"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

"Group"	the Company and its Subsidiaries
"Holiday Express"	Holiday Express (UK) Limited, a company incorporated in England and Wales with company number 04215384
"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 a 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 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
"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
"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
"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 Placees of New Ordinary Shares at the Placing Price
"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
"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
"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
"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
"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