

Date: 14 January 2010
On behalf of: Travelzest plc ('Travelzest', 'the Company' or 'the Group')
Embargoed until: 0700hrs

Travelzest plc

▪ Preliminary unaudited results for the year to 31 October 2009

Travelzest plc (AIM:TVZ), the UK and Canadian holiday retailer, is pleased to announce its preliminary results for the year to 31 October 2009.

Financial Highlights

- Operating profit increased to £1.3 million (2008 (loss): £2.3 million)
- Underlying operating profit (operating profit before separately disclosed items of £2.8 million (2008: £3.6 million) and amortisation of intangible assets & goodwill impairment of £1.4 million (2008: £3.8 million)) increased 6% to £5.5 million (2008: £5.1 million)
- Underlying operating profit margin increased from 11.6% to 14.3%
- Total transaction value increased 6% to £189.5 million (2008: £179.2 million (restated)).
- Profit after tax for the year of £719,000 (2008 (loss): £4.9 million)
- Basic and diluted profit per share increased to 1.52 pence (2008 (loss): 17.19 pence). Underlying operating profit per share increased by 33% to 10.36 pence from 7.78 pence

* Underlying operating profit per share is adjusted for amortisation of intangible assets & goodwill impairment, separately disclosed items and excludes the profit & loss impact of options and warrants

Operational Highlights

- New Executive Directors appointed
- Reorganization of the operational structure of the Group substantially completed
- Successful capital restructuring raising £5.7 million of equity and renegotiation of the Group's debt facility to allow greater flexibility
- Continued strong performance from the Group's Canadian operations
- Independent recognition from industry observers for the quality of service provided by Travelzest Group companies, including:
 - One of the World's 126 Top Travel Specialists by the elite Conde Nast Traveler magazine
 - Finalist at The British Travel Awards in two categories
 - Top five short break companies at the 2009 Guardian Observer and guardian.co.uk travel award
 - Voted favourite tour operator by Which? Members
 - AITO Travel Company of the Year award

Jonathan Carroll, Travelzest's Chief Executive Officer, commented:

"2009 was a restructuring and re-energising year which brought together the strengths and people in the Travelzest Group of companies to work as a team. We have great belief in our brands and great confidence in our new management team and operational structure, which together provide the foundation for our future performance."

We would like to thank our shareholders, employees and supporters for their belief in our restructuring plan and strategies. We are cautiously optimistic that 2010 will show improvement from 2009 reflecting our dedication to build shareholder value."

- Ends -

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Notes to Editors:

The Travelzest group currently comprises:

Canadian Operations

itravel2000.com - itravel2000.com

The Cruise Professionals - www.cruiseprofessionals.com

UK Operations

Holiday.co.uk – www.holiday.co.uk

Flight.co.uk – www.flight.co.uk

Best of Morocco - www.bestofmorocco.co.uk

VFB Holidays - www.vfbholidays.com

Peng Travel - www.pengtravel.co.uk

Faraway Holidays - www.farawayholidays.co.uk

The Malaysia Experience - www.malaysiaexperience.co.uk

Tapestry Collection - www.thetapestrycollection.com

The Wow House Company - www.thewowhousecompany.co.uk

Captivating Cuba - www.captivatingcuba.com

JMB Travel - www.jmb-travel.co.uk

Fair's Fare - www.fairsfare.com

Chairman's statement

The year to 31 October 2009 was one of great change and improvement for Travelzest as we restructured and strengthened the Group's operations and balance sheet.

In making these changes, the Group improved underlying operating profit, moved to a more integrated management structure and implemented new corporate governance and control measures.

The Board is pleased with the progress made.

The year's most significant operational changes were the appointments of Jonathan Carroll as Chief Executive Officer and Jack Fraser as Chief Operating Officer and Finance Director.

Promoted from our largest operating business, itravel2000, Jonathan and Jack successfully led the reorganisation and capital restructuring which took place in the second half of the year and are now focussed on growing your business profitably. We expect to reap the benefits of the reorganisation in forthcoming years and believe the Group is well positioned to prosper through market and economic cycles.

The Group sells overseas holidays and travel to clients who live mainly in the United Kingdom and Canada. This model provides us with a diversity of geography, currency, seasonality and distribution, which is a strength. With the power of Travelzest's brands and the proven retailing ability of our businesses, in particular itravel2000, we see attractive markets to exploit and the ability to create value for shareholders.

Travelzest's ambition is to be our customers' advocate in finding them the most attractive holidays and the best experiences. We are investing in technology that will enable us to cross sell our products between the customers of our portfolio businesses, which we have not previously been able to do. We have also greatly simplified our operating structure and built integrated common services in our advertising, marketing, product, and back office to provide better managerial functions to support our businesses. This gives greater efficiency and provides information to enable us to better manage the Group.

Results

Total transaction value has grown 6% to £189.5 million from £179.2 million (restated). Revenue decreased 13% to £38.3 million from £44.3 million, gross profit improved slightly to £22.5 million from £22.4 million, operating profit increased to £1.3 million (2008 (loss): £2.3 million), and underlying operating profit before separately disclosed items of £2.8 million (2008: £3.6 million) and amortisation of intangible assets and goodwill impairment of £1.4 million (2008: £3.8 million) has increased by 6% to £5.5 million (2008: £5.1 million). Basic and diluted profit per share increased to 1.52 pence (2008 (loss): 17.19 pence). Underlying operating profit per share (adding back separately disclosed items and amortisation of intangible assets and goodwill impairment) increased by 33% to 10.36 pence from 7.78 pence based on adjusted profit of £4,892,000.

A description of the performance of the Group's operations is given in the Chief Executive's statement.

Capital Restructuring

Because of the decline in the Group's cash in 2008 and the difficult economic environment that existed, the Board decided to strengthen its balance sheet through the restructuring of the existing debt facility and to raise equity through a placing of new ordinary shares to existing shareholders and Directors of the Company. This was successfully completed in September 2009 with the injection of approximately £5.7m (before expenses) of new funds. At the same time, the terms of the Group's principal debt facilities were restructured.

Acquisitions

The Board is dedicated to creating value for shareholders and will explore opportunities to acquire businesses which complement the Group's strategy and operational structure.

People

The leaders of our businesses responded magnificently during what was a memorable and difficult year, coping with the palaver and uncertainty with fortitude, confidence and professionalism. This gives me confidence in the strength of our Group and I see a promising future under their direction.

I thank all who work for the Travelzest group of companies, especially our business leaders, for their dedication and hard work during the year.

Outlook

Whilst the past year has been the most difficult in our Company's history, we are cautiously optimistic about our markets for the next 12 months. We are seeing promising economic indicators from Canada and very early signs of the same in the UK. The late booking market continues to be important to us and with the new marketing initiatives under development, we remain hopeful for the coming financial year.

Mark T J Molyneux
Chairman

Chief Executive's statement

As this is my first Chief Executive's statement to our shareholders, I would like to express on behalf of Jack and myself our gratitude to our shareholders, employees, and families, and all who have supported us over the past six months and continue to support us. Following our appointments in May 2009, we determined that the Group needed to quickly react to a very challenging economy and travel market. Our first task was to strengthen our balance sheet through the successful renegotiation of our Group's debt facility and to secure needed capital through an issue of new shares. At the same time, we needed to develop a new Group strategy that included the reorganization of the way the Group operated, marketed its products, and developed sustainable revenue streams.

New Operational Structure

After a critical review of our operations, a new strategic plan was developed that combined our tour operating strength in product, our unique marketing capabilities, and our online and offline retail distribution capabilities. The new strategic direction focuses on developing a unified product offering to the market that leverages these strengths and provides our customers with a unique and unparalleled level of service.

Travelzest is predominately a retail distribution operation and over 90% of our bookings come directly through online and offline sales channels. One of our key retailing strengths and differentiators is our ability to develop and bring new and innovative marketing programs to the consumer. Another key area of difference between Travelzest and a normal travel retailer is our managed tour operations. This capability allows us to control the various travel segments and quality of services delivered and also provide improved margins through direct supplier relationships.

Canadian Operations

We continue to see improvement in our Canadian Operations with the development of itravel2000's online and offline capabilities with dynamic packaging and innovative process and procedures. itravel2000 continues to capture additional market share through brand expansion into new regional markets and the development of product lines. As well, following the addition of The Cruise Professionals in financial year 2008, we are now benefiting from the true value that has been developed in that business over more than 10 years to influence our overall group and help develop a superior luxury service offering for our customers globally.

The Canadian economy and consumers' confidence is showing signs of improvement from mid 2009 levels and we are seeing improved outbound travel patterns from summer levels. However, we continue to hold cautious views for the economy and consumer leisure travel growth for the current financial year.

United Kingdom Operations

We have made many changes to the overall structure in the UK over the past four months, becoming more functionally based rather than brand based. This shift means that rather than a series of largely independent small businesses pursuing similar strategies and duplicating resources, most of the companies in the UK operate as one business, with a unified operational structure, common strategies and sales operations. We have the utmost confidence in our team to perform during the period of change and implementation of the new strategies, and to develop stronger and more sustainable revenue streams over the current financial year.

The UK economy seems to be on a slightly slower recovery than the Canadian market, and we continue to see pressure on the pound with destination currencies like the euro. As such, we continue to look at alternative markets in which to promote our tour operating product, while continuing to monitor the UK market closely for signs of consumer leisure travel growth.

Group performance

During one of the most difficult economic and travel markets in recent history, Travelzest was able to continue to grow transaction value by 6% to £189.5 million (2008: £179.2 million restated). We attribute the majority of this growth to our Canadian Operations with the performance of itravel2000 as well as the inclusion of The Cruise Professionals for a full financial year.

Conversely, revenue decreased to £38.3 million from £44.3 million, a decrease of £6 million or 13%. This was primarily due to the closure of Holiday Express in the previous financial year and a drop in passenger volume in the UK Operations. Our gross profit margin on total transaction value also decreased slightly from 12.5% to 11.9% as a result of the closure of Holiday Express and lower advertising revenue in the Canadian Operations.

We are pleased to report that the Group increased underlying profit margin to 14.3% from 11.6% resulting in an increase in underlying operating profit of 6% to £5.5 million (2008: £5.1 million). This reflects the continued operational improvements being implemented throughout the Group and the resulting cost savings from the recent restructuring. We also continue to improve our sales conversion and reduce our online and offline costs of customer acquisition and servicing through innovative sales and marketing capabilities, and new post sale process and systems.

A key measurement for our operations on which we continue to focus strongly is financial performance per employee. This financial year resulted in an 8.7% improvement in our transaction value per employee. This improvement combined with the reduction in our operating expense ratio, ultimately provided a 9.3% improvement in per employee underlying operating profit.

A good proportion of the improvement in our operating expense ratio was as a result of a considerable reduction in our head office cost structure. This was achieved by shifting the Group to a centrally managed operation with Group policies and functions.

We are continuing with our operational improvements and centralisation of various functions to improve the Group's overall productivity. During the current financial year, we aim to reduce further the overall number of operating locations and continue to consolidate our technology infrastructure, launch new marketing and distribution capabilities, consolidate our back office infrastructure, and make our systems more unified.

At the end of the financial year the Group employed on average for the year 321 staff compared to an average of 330 staff for the previous year.

Included in the reported operating profit are a number of one-off items which are separately disclosed and set out below.

Separately disclosed items

During the year the Group incurred certain costs set out below totalling £2.8 million (2008: £3.6 million). These have been separately disclosed to enable a better understanding of the results of the Group. We do not expect the specific items segmented to reoccur, however, we currently anticipate in the current financial year additional restructuring charges related to infrastructure consolidation, as well as additional share based payment charges as options are issued or cancelled.

Separately disclosed items:	2009	2008
	£000's	£000's
Termination of rights under warrant agreement for C A L Mottershead	-	956
Share-based payment charge	(557)	298
Aborted acquisition costs	-	316
Move and other new project start up costs	20	693
Aborted takeover costs	-	125
Holiday Express non-recurring costs	-	1,237
Travelzest restructuring costs	1,187	-
Other Group companies' restructuring costs	1,998	-
Placing fees	127	-
Total	<u>2,775</u>	<u>3,625</u>

Financing

During the year, the Company was successful in issuing 114.2 million new ordinary shares of 2 pence each for cash at a price of 5 pence each to existing shareholders and Directors, raising approximately £5.7 million (before expenses). This injection of funds provided the necessary capital support for the Company to continue to trade and to restructure operations and implement new strategic plans for the Group.

In addition, as part of financing, the Group restructured its debt facilities of £14.5 million. Net debt at the year end was £9.2 million (2008: £10.8 million). Further capital repayments are due in May and November each year until May 2012.

Summary

We characterise financial year 2009 as a restructuring and re-energising year which brought together the strengths and people that existed in the Travelzest Group of companies to work as a team. We have great belief in our brands and great confidence in our new management team and operational structure, which together provide the foundation for our future performance. We would like to again thank our shareholders, employees and supporters for their belief in our restructuring plan and strategies. We hold cautious optimism that 2010 will show improvement from 2009 with our continued dedication to build shareholder value.

Jonathan Carroll
Chief Executive

Consolidated income statement

	Notes	Year to 31 October 2009 Unaudited £000's	Year to 31 October 2008 £000's
Total transaction value (restated)	2	<u>189,456</u>	179,244
Revenue	2	38,349	44,318
Cost of sales		<u>(15,868)</u>	(21,953)
Gross profit		22,481	22,365
Administrative expenses		(21,188)	(24,687)
Operating profit/(loss)		<u>1,293</u>	(2,322)
Analysed as:			
Underlying operating profit		5,466	5,140
Separately disclosed items		(2,775)	(3,625)
Amortisation of intangible assets & goodwill impairment		(1,398)	(3,837)
		1,293	(2,322)
Finance income	3	105	175
Finance costs	3	(1,440)	(1,445)
Loss on ordinary activities before taxation		<u>(42)</u>	(3,592)
Income tax credit/(expense)	4	761	(1,339)
Profit/(loss) for the year		<u>719</u>	(4,931)
Basic earnings/(loss) per share	5	1.52p	(17.19)p
Fully diluted earnings/(loss) per share	5	1.52p	(17.19)p

All results are from continuing operations.

Consolidated balance sheet

	31 October 2009 Unaudited £'000's	31 October 2008 £'000's
ASSETS		
Non-current assets		
Deferred tax	1,351	-
Goodwill	41,129	41,987
Intangible assets	3,202	3,435
Property, plant & equipment	1,435	1,373
	<hr/> 47,117	<hr/> 46,795
Current assets		
Inventories	64	33
Trade and other receivables	8,174	7,665
Derivative financial instruments	238	52
Cash and cash equivalents	5,585	5,077
	<hr/> 14,061	<hr/> 12,827
Total assets	<hr/> 61,178	<hr/> 59,622
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent company		
Share capital	2,903	407
Share premium account	31,524	16,779
Exchangeable shares	-	12,735
Merger reserve	2,320	2,320
Translation and hedge reserve	(4,844)	(1,985)
Retained earnings	(129)	(291)
Total equity	<hr/> 31,774	<hr/> 29,965
Non-current liabilities		
Trade and other payables	6	41
Borrowings	13,144	14,349
Obligations under finance leases	347	-
Deferred tax	871	776
	<hr/> 14,368	<hr/> 15,166
Current liabilities		
Trade and other payables	11,645	12,120
Borrowings	1,596	1,500
Obligations under finance leases	88	-
Derivative financial instruments	1,341	871
Current tax liabilities	366	-
	<hr/> 15,036	<hr/> 14,491
Total liabilities	<hr/> 29,404	<hr/> 29,657
Total equity and liabilities	<hr/> 61,178	<hr/> 59,622

Consolidated cash flow statement

		Year ended 31 October 2009 Unaudited £000's	Year ended 31 October 2008 £000's
	Notes		
Cash flows from operating activities			
Cash generated from operations	6	754	(2,311)
Income taxes paid		(42)	(1,767)
Net cash flow from operating activities		712	(4,078)
Cash flow from investing activities			
Interest received		32	175
Acquisition of subsidiary		(11)	(5,473)
Purchase and disposal of property, plant & equipment & other intangibles		(230)	(1,211)
Net cash used in investing activities		(209)	(6,509)
Cash flow used in financing activities			
Repayment of borrowings		(1,500)	(11,881)
Interest paid		(1,315)	(1,042)
New bank loans raised		-	16,000
Proceeds on issue of shares*		4,785	1,855
Net cash from financing activities		1,970	4,932
Net increase/(decrease) in cash and cash equivalents		2,473	(5,655)
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		5,077	10,480
Effect of foreign exchange rate changes		(1,965)	252
Net movement in cash and cash equivalents		2,473	(5,655)
Cash and cash equivalents at end of period		5,585	5,077

*Gross proceeds £5.7 million less £924 thousand of costs

Consolidated statement of recognised income and expenses

	Year ended 31 October 2009	Year ended 31 October 2008
	Unaudited	Unaudited
	£000's	£000's
Exchange difference on translating of foreign operations.	(2,661)	(1,416)
Movement in cash flow hedge	(198)	(819)
Income and expenses directly recognised in equity	(2,859)	(2,235)
Group profit/(loss)	719	(4,931)
Total expenses recognised in the financial year	(2,140)	(7,166)

1 Principal accounting policies

Basis of preparation

The consolidated financial information of Travelzest plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information have been prepared under the historical cost convention.

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 the date of 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; and for business travel products is recognised when earned, which is upon booking from the customer as bookings are ticketed immediately. In all 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. During the year the Group has made an adjustment the presentation of total transaction value in relation to the recognition of travel agency bookings causing the restatement of the prior year value.

Impairment

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

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

Business combinations

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

Share-based payments

Management uses valuation techniques in determining the fair values of share-based payments at the date of grant; it adopts the Black-Scholes pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and risk-free interest rate.

Judgements and estimates (continued)

Fair value of financial instruments

Management uses active market quotes to measure the fair value of derivative 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 has to be effected over its remaining term.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full.

Business combinations

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the condensed financial information prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated condensed financial information at their fair values, which is also used as the basis 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. Under IFRS, goodwill is not amortised. Goodwill is recognised as an asset, and is reviewed for impairment at least annually or 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. 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.

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 are 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.

Goodwill and other intangible assets (continued)

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 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 measurement depends on classification; for example trade and other receivables which are fixed price are carried at amortised cost (if applicable) using an effective interest method if the time value money is significant. Due to the nature of the businesses, credit risk is deemed low, therefore amortisation or impairment is unlikely, although would be recognised as a separately disclosed item from administrative expenses. Derivatives and cash and cash equivalents are accounted for in accordance with the policy set out below.

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are classified as financial liabilities measured at amortised cost or derivatives designated as hedging instruments.

The Group determines the classification at initial recognition and measures initially at fair value. The subsequent measure depends on classification; for example financial liabilities measured at amortised cost having been initially recognised at fair value (in case of borrowings, 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 group currently has no fair value hedges in place. 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.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows arising from a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying the amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects in the income statement.

Prospective hedge effectiveness is performed at the commencement of hedge accounting, and subsequently at each balance sheet date, through comparison of the critical terms of the hedged forecast transaction and the hedging instrument. Critical terms are the maturity, amount and currency of the cash flows relating to the hedging instrument and the forecast hedged transaction. Retrospective hedge effectiveness is performed at each reporting date principally using a dollar offset analysis, comparing the cumulative changes in the fair values of the forecast hedged transaction and the hedging instrument.

When a hedging instrument no longer meets the criteria for the hedge accounting, expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity or recognised in the income statement immediately.

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 and is recognised on the same time basis as statutory turnover. During the financial year the Group has adjusted its presentation of total transaction value leading to the restatement of prior year figures. This has had no impact on statutory revenue and operating margin.

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 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. Revenue relating to travel agency receivable on third party business travel products is recognised when earned on date of booking, which by the terms of contracts is the date the invoice is raised and the customer becomes liable for payment under the terms of their contract. In all cases recognition occurs when it is probable that the economic benefits associated with the transaction will flow into the Group, the costs incurred or to be incurred can be measured reliably. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-group transactions.

Income statement presentation

Profit or loss from operations includes the results from operating activities of the Group. Separately disclosed items are those that are unusual because of their size, nature or incidence which the Group's Management consider should be disclosed separately to enable a full understanding of the Group's results.

Tax

Tax represents the sum of tax currently payable and deferred tax. Tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case the associated tax is also recognised directly in equity.

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted and or substantively enacted at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is provided on the initial recognition of goodwill, or on initial recognition of an asset or liability unless the related transaction is business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided that are enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are always recorded in full. Deferred tax assets are recognised to the extent that it is probable 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 recognised in equity.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Share-based payments

The Group issues share-based instruments to certain employees as part of their total remuneration at fair value. The fair values of these instruments are calculated at the date of grant, using the Black-Scholes pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting periods of the instruments, with a corresponding increase in equity reserves. Any waivers to share-based payments are treated as cancellations by the Group.

Basis of consolidation

The group financial statements consolidate those of the Company and of its subsidiary companies drawn up to 31 October 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. 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 financial instruments designated as effective hedges are also included.

The Company was entitled to the merger relief offered by section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Peng Travel Limited, Fair's Fare Limited and the settlement of outstanding consideration on the acquisition of Holiday Express Group Limited.

On acquisition, the investments in the Company's immediate subsidiary companies were recorded in the Company's balance sheet at the fair value of the assets acquired, with the difference between this and the nominal value of the shares issued being credited to a merger reserve.

Retained earnings include all current and prior period retained profits.

Brochure and advertising costs

The costs of brochure publication and advertising including web based advertising are charged to the income statement as incurred.

Operating lease agreements

In accordance with IAS 17 Leases, rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Finance lease agreements

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and the rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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 facility loan, less cash and cash equivalents as presented in the face of the financial statements. The Group's goal in capital management is to comply with its covenants arising under the group's current borrowing facility.

2 Segment reporting

For management purposes, the Group is currently organised into two operating divisions: Tour Operations and Travel Agency Operations. These divisions are the basis on which the Group reports its primary segment information.

Within these divisions, businesses are classified by geographical location and this analysis is the basis for the secondary segmental information. Segmental information for these activities is presented below:

Total transaction value	2009	2008
	£000's	(restated) £000's
Tour Operations	19,153	21,341
Travel Agency Operations	170,303	157,903
	<u>189,456</u>	<u>179,244</u>

Primary reporting format – business segments

	Tour Operations		Travel Agency Operations		Total	
	Year to 31 October		Year to 31 October		Year to 31 October	
	2009	2008	2009	2008	2009	2008
	£000's	£000's	£000's	£000's	£000's	£000's
Revenue	19,153	21,341	19,196	22,977	38,349	44,318
Results						
Profit from operation before depreciation	918	1,211	5,062	5,213	5,980	6,424
Depreciation	(41)	(42)	(251)	(178)	(292)	(220)
Amortisation	(525)	(35)	(868)	(3,800)	(1,393)	(3,835)
Profit for the Group					4,295	2,369
Separately disclosed items	-	-	-	-	(2,775)	(3,625)
Central costs*					(227)	(1,066)
Profit/(loss) before finance items					1,293	(2,322)
Finance income					105	175
Finance costs					(1,440)	(1,445)
Loss before tax					(42)	(3,592)
Tax					761	(1,339)
Profit/(loss) for year					719	(4,931)

*Included within central costs is £9,000 of depreciation and £5,000 of amortisation (2008: £9,000 and £2,000 respectively). In the prior year, amortisation for Travel Agency Operations includes the impairment of goodwill in Holiday Express (UK) Limited of £2,100,000.

During the year Tour Operations spent £331,000 on capital expenditure, Travelzest £6,000 and Travel Agency Operations £109,000.

	Tour Operations		Travel Agency Operations		Total	
	Year to 31 October		Year to 31 October		Year to 31 October	
	2009	2008	2009	2008	2009	2008
	£000's	£000's	£000's	£000's	£000's	£000's
Segment assets	8,924	10,180	52,056	49,417	60,980	59,597
Unallocated corporate assets					198	25
Consolidated assets					61,178	59,622
Segment liabilities	(4,204)	(4,217)	(30,474)	(16,807)	(34,678)	(21,024)
Unallocated corporate liabilities					5,274	(8,633)
Consolidated liabilities					(29,404)	(29,657)
Net assets					31,774	29,965

Secondary reporting format – geographical location

Location	Revenue	
	Year to 31 October	Year to 31 October
	2009	2008
	£000's	£000's
United Kingdom	21,391	27,960
Canada	16,958	16,358
Group	38,349	44,318

During the year £337,000 was spent on the purchase of intangible and tangible assets in the United Kingdom and £109,000 in Canada.

3 Finance income/(expenses)

	2009	2008
	£000's	£000's
Interest income	32	175
Interest expenses	(1,440)	(1,042)
Expenses from interest hedges	-	(403)
Income from interest hedges	73	-
	(1,335)	(1,270)

The expenses arising from other interest rate hedges in 2008 relates to the ineffective element of a basis points swap.

Income arising from interest rate hedges in 2009 reflects the overall credit from effective Canadian dollar and sterling interest rate swaps.

4 Income tax expense

Tax expense comprises:

	2009 £000's	2008 £000's
Current income taxes:		
UK Corporation Tax	-	-
Overseas taxation	413	584
Adjustments to prior years	(739)	451
Deferred tax - share options	(155)	203
Deferred tax – losses recognised	(220)	-
Deferred tax – ACAs	(60)	101
	<hr/>	<hr/>
Tax on loss on ordinary activities	(761)	1,339

Reconciliation from expected to actual income tax expense:

	2009 £000's	2008 £000's
Loss on ordinary activities before taxation	(42)	(3,592)
Expected income tax expense (Corporation Tax rate 28%, (2008 28%))	10	(1,006)
Amortisation and impairment	394	623
Expenses not deductible	70	437
Depreciation in excess of capital allowances	(60)	101
Share options	(155)	203
Effective tax expenses and income relating to other periods	(739)	451
Losses carried forward	(104)	513
Rates differences	(177)	17
	<hr/>	<hr/>
Actual income tax (credit)/expense	(761)	1,339

All deferred tax has been recognised in the income statement.

5 Profit/loss per share

Basic and diluted profit per share of 1.52p (2008 (loss): 17.19p) is based on a profit of £719,000 (2008: loss of £4,931,000) and 47,231,425 (2008: 28,686,523) shares of 2p, being the average number of shares in issue during the year.

The underlying operating profit per share of 10.36p (2008: 7.78p) is based on a profit of £4,892,000 (2008: £2,233,000) (based upon the profit of £719,000 (2008: loss of £4,931,000) adding back the amortisation of intangible assets and goodwill impairment of £1,398,000 (2008: £3,837,000), and other separately disclosed items of £2,775,000 (2008: £3,327,000)).

6 Notes to the statement of cash flows

The cash flow statement showed the flow of cash and cash equivalents on the basis of a separate presentation of cash inflows and outflows from operating, investing and financing activities.

Reconciliation of operating profit to net cash inflow from operating activities

	The Group	
	2009	2008
	£000's	£000's
Operating profit/(loss)	1,293	(2,322)
Amortisation and impairment	1,398	2,737
Depreciation	301	229
Cash outflow on increase in inventories	(31)	(31)
Cash outflow on change in operating receivables	(1,098)	(623)
Share based payments	(557)	1,254
Cash outflow on change in operating payables	(552)	(3,555)
	<hr/>	<hr/>
	754	(2,311)

Included within changes in operating payables is £280,000 relating to placing fees.

7 Publication for non statutory accounts

The figures and financial information for the financial year ended 31 October 2009 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the auditors yet reported on them.

The figures and financial information for the year ended 31 October 2008 do not constitute the statutory financial statements for that year. Those financial statements have been delivered to the Registrar and included the auditors' report which was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) or 498(3) of the Companies Act 2006.