

Date: 22 July 2011  
On behalf of: Travelzest plc (“Travelzest” or the “Group”)  
For immediate release

## Travelzest plc

### Interim results for the six months to 30 April 2011

Travelzest plc, specialising in providing a broad base of travel products and travel programmes for consumers in North America and the United Kingdom, is pleased to announce its interim results for the six months ended 30 April 2011.

#### Financial highlights

£m	H1 2011	H1 2010	Change
Total transaction value	140.7	118.7	+19%
Revenue	19.8	18.9	+5%
Gross profit	13.4	12.1	+11%
Underlying operating profit <sup>1</sup>	3.3	3.1	+6%
Profit before tax	0.4	1.4	-71%
Net debt	8.2	7.7	+6%

<sup>1</sup> Underlying operating profit excludes separately disclosed items, amortisation of intangible assets and goodwill impairment

#### Operational highlights

- North American operations continue to show strong revenue growth driven by the continuing expansion of itravel2000. As at 9 July 2011, bookings for summer 2011 departures were up 20% year on year.
- The UK operations are struggling in an exceptionally difficult trading environment that is affecting many tour operators. As at 9 July 2011, summer 2011 departures were down 57% year on year. This decline reflects both a decrease in overall sales and reductions in our offerings to certain destinations.
- We continue to invest in new technology to further improve our customers' online experience.
- New inventory integration for broader hotel and air selection will be completed in second half of financial year.
- UK operational restructuring is complete with a majority of operations being managed out of our new Cheltenham office.
- New bank facility remains under negotiation, with an anticipated completion, assuming continued successful negotiations, of September 2011.

#### Commenting on the results, Jonathan Carroll, Chief Executive Officer, said:

*“I am delighted with the progress we are making in growing our business in North America. Our restructuring is complete in the UK and while we have experienced exceptionally difficult trading conditions, I remain confident of our ability to grow in this market. The model we have implemented in the UK leverages the capabilities we have developed in North America and establishes a sound foundation for the division to grow and mature over time.”*

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## **Overview**

Travelzest continues to perform very well in North America. By contrast, the UK operation has struggled in exceptionally difficult markets, as consumers cut back on discretionary spending.

## **Results**

The Group's transaction value for the six months ended 30 April 2011 increased by 19% to £140.7 million (2010: £118.7 million) and revenue increased by 5% to £19.8 million (2010: £18.9 million). Gross profit increased by 11% to £13.4 million (2010: £12.1 million) with gross profit margins on total transactions value falling to 9.5% from 10.2%. Underlying operating profit increased 6% to £3.3 million from £3.1 million with associated underlying operating profit/gross profit margin generally holding at approximately 25%.

Our North American businesses continued to perform well with revenue increasing 24% to £14.8 million (2010: £11.9 million). Revenue from UK operations for the same period dropped 27% to £5.1 million (2010: £7.0 million).

Total transaction value from Agency operations increased 22% to £136.7 million (2010: £112.5 million) and revenue increased 23% to £15.8 million (2010: £12.8 million). This growth is largely represented by our North American operations. Agency operations profit before depreciation and amortisation increased 9% to £5.0 million (2010: £4.6 million) with associated operating profit margin decreasing to 32% (2010: 36%).

Total transaction value/revenue from Merchant operations (the sale of directly contracted product, which largely relates to the UK businesses) decreased 35% to £4.0 million (2010: £6.2 million). Merchant operations loss before depreciation and amortisation was flat at £1.0 million (2010: £1.0 million loss) with associated operating loss margin increasing to (25%) (2010: (16%) loss margin).

The Group has incurred exceptional charges totalling £1.6 million (2010: £0.4 million). The majority of these charges relate to the restructuring of the UK operations and centralisation of functional teams and systems, as well as share based payment charges. They are detailed further below.

Operating cash flow decreased in the period to £1.6 million (2010: £4.3 million) primarily due to weaker trading in the UK operations and shorter collection periods demanded by various suppliers as they seek to improve their own liquidity. Cash and cash equivalents decreased 54% to £4.3 million (2010: £9.3 million) as a result of the decrease in operating cash flow and the increase in debt repayments and associated interest costs. As a result, the Group's overall net debt position increased to £8.2 million (2010: £7.7 million).

## **Current trading**

### ***Winter 2010/11***

Market and economic conditions in North American were generally good, with Canada having a resilient outbound travel market as residents left the country for warmer climes. By contrast, the UK market for travel during the winter was not good, reflecting the economic situation. North American operations experienced a 20% increase in departures with UK operations down 45%. On a combined basis, the overall departures for the winter season were up 18%,

### ***Summer 2011***

The same economic and consumer trends experienced in the winter have continued for both the North American and the UK markets. The Canadian market continues to show strong demand with our North American departures for the summer up 20% as at 9 July 2011. The UK market continues to be very challenging, with bookings down 57% as at 9 July 2011. On a combined basis, summer departures are up 2%.

## **Strategy**

We continue to implement the Group's strategies for Agency and Merchant operations. There is a strong focus on improving online capabilities, further product integration, and enhancing our management of offline customers.

### ***Merchant operations***

The majority of our Merchant sales are currently in the UK, where we continue to develop our Merchant model with an emphasis on a non-risk products, distribution through the travel trade and internal distribution under all Travelzest brands. We are also developing unique programmes that we expect will show strong interest from our Agency consumer base.

### ***Agency operations***

Our Agency operations continue to be the strongest area of growth for the Group with ittravel2000 providing substantially all the growth for the Group. We intend to leverage the purchasing power of our North American operations in our Merchant operations.

We continue to develop our Travelzest Holidays brand in the UK and are expanding into new regions as we launch additional products.

### ***Central operations***

Treasury management, accounting, technology, reporting and planning have all been centralised. The Group is also reviewing the possibility of linking its UK and North American call centres to improve service, utilisation and productivity.

## **Separately disclosed items**

The Group has incurred various non-recurring restructuring charges as a result of the reorganisation of its UK operations. Other charges during the period are in respect to share based payments together with the amortisation of intangible assets.

Separately disclosed items increased to £1.6 million (2010: £0.4 million). The Group will incur additional restructuring charges during the current financial year from the restructuring of its debt financing, as well as share based payment and amortisation of intangible asset charges.

## **Debt facility**

The Group successfully repaid £2.3 million in November 2010. However, as announced on 1 June 2011 and 1 July 2011, the Group has obtained deferrals from Barclays, its current lender, of a capital repayment due in May 2011, together with waivers of various covenants associated with the existing facility.

The Group is currently in negotiations with a new lender for the provision of alternative facilities and anticipates, assuming continued successful negotiations, having a new debt structure in place by September 2011. The Group has no reason to believe that further deferrals of the May 2011 capital repayment will not be forthcoming from Barclays between now and September 2011, or such later date that the alternative facilities are put in place.

## **Potential offer**

On 19 April 2011, the Company announced that it was in the very early stages of discussions over a potential offer for the entire issued and to be issued share capital of the Company. The Company confirms today that it is still in discussions in relation to the potential offer, however there can be no certainty that the talks will result in an offer being made for the Company.

## **Outlook**

The Group's North American operations, in particular the ittravel2000 brand in Canada, have performed very well in the first half of the financial year. Our North American operations continue to perform encouragingly but face strong pressure on margins and operating costs. Because of the very difficult trading environment, our UK operations are struggling, despite best efforts of our local team and new local senior management. Nevertheless, we believe that in the medium term the UK operations will provide good returns for the Group.

For the full year, exceptional charges are anticipated to be below last year, with interest costs expected to be broadly in line. The Group's effective tax rate is likely to increase as tax is levied upon the profit of the Canadian business without an offset for Central costs and UK operational losses, or group interest charges.

The underlying operating result for the year will depend upon the combined performance of the UK and Canadian operations for the remainder of the year in what remains a challenging and unpredictable economic climate. Given the great difficulties inherent in forecasting in this industry and in these challenging economic times, there is a material risk that the Company will not achieve the Board's current expectations.

We remain optimistic about the medium and longer-term prospects for the Group despite the difficulties in the UK in the current year.

## Condensed consolidated income statement

	Notes	Six months ended 30 April		Year ended
		2011	2010	31 October
		£'000s	£'000s	£'000s
		(unaudited)	(Re-presented)* (unaudited)	(Re-presented)*
Total transaction value		140,685	118,675	217,645
Revenue	2	19,832	18,935	43,805
Cost of sales		<u>(6,460)</u>	<u>(6,870)</u>	<u>(19,794)</u>
Gross profit		13,372	12,065	24,011
Administrative expenses		<u>(12,042)</u>	<u>(9,722)</u>	<u>(32,010)</u>
Operating profit/(loss)		1,330	2,343	(7,999)
Analysed as:				
Underlying operating profit		3,298	3,074	6,099
Separately disclosed items	6	(1,557)	(404)	(1,917)
Amortisation of intangible assets and goodwill impairment		(411)	(327)	(12,181)
		1,330	2,343	(7,999)
Finance income		-	-	9
Finance costs		(914)	(925)	(1,919)
Profit/(loss) on ordinary activities before taxation		<u>416</u>	<u>1,418</u>	<u>(9,909)</u>
Income tax expense		(935)	(930)	(2,860)
(Loss)/profit for the period		<u>(519)</u>	<u>488</u>	<u>(12,769)</u>
Basic (loss)/earnings per share	4	(0.36)p	0.34p	(8.80)p
Fully diluted (loss)/earnings per share	4	(0.36)p	0.32p	(8.80)p

All results are from continuing operations

\* Refer to Note 8

## Condensed consolidated statement of comprehensive income

	Six months ended 30 April		Year ended
	2011	2010	31 October
	£000's	£000's	2010
	(unaudited)	(unaudited)	£000's
(Loss)/profit for the period	(519)	488	(12,769)
Foreign exchange movements	(377)	(718)	(578)
Movement in cash flow hedge	166	(166)	292
Other comprehensive income, net of tax	(211)	(884)	(286)
Total comprehensive income for the period	<u>(730)</u>	<u>(396)</u>	<u>(13,055)</u>

## Condensed consolidated balance sheet

	30 April		31 October
	2011	2010	2010
	£'000s	£'000s	£'000s
	(unaudited)	(unaudited)	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred tax	-	1,348	-
Goodwill	29,809	41,129	29,809
Intangible assets	2,431	3,200	2,619
Property, plant and equipment	1,225	1,058	1,262
	<u>33,465</u>	<u>46,735</u>	<u>33,690</u>
<b>Current assets</b>			
Inventories	6	55	18
Trade and other receivables	7,638	7,890	7,560
Derivative financial instruments	-	-	190
Cash and cash equivalents	4,255	9,330	5,850
	<u>11,899</u>	<u>17,275</u>	<u>13,618</u>
<b>Total assets</b>	<u><u>45,364</u></u>	<u><u>64,010</u></u>	<u><u>47,308</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	2,903	2,903	2,903
Share premium account	31,456	31,524	31,456
Merger reserve	2,320	2,320	2,320
Translation and hedge reserve	(5,341)	(5,728)	(5,130)
Retained (deficit)/earnings	(13,031)	320	(12,749)
<b>Total equity</b>	<u>18,307</u>	<u>31,339</u>	<u>18,800</u>
<b>Non-current liabilities</b>			
Trade and other payables	459	196	622
Borrowings	6,644	13,321	9,733
Obligations under finance leases	235	344	273
Deferred tax	384	872	484
	<u>7,722</u>	<u>14,733</u>	<u>11,112</u>
<b>Current liabilities</b>			
Trade and other payables	10,371	11,923	10,031
Borrowings	5,766	3,680	4,503
Obligations under finance leases	101	105	107
Derivative financial instruments	877	1,020	1,247
Current tax liabilities	2,220	1,210	1,508
	<u>19,335</u>	<u>17,938</u>	<u>17,396</u>
<b>Total liabilities</b>	<u><u>27,057</u></u>	<u><u>32,671</u></u>	<u><u>28,508</u></u>
<b>Total equity and liabilities</b>	<u><u>45,364</u></u>	<u><u>64,010</u></u>	<u><u>47,308</u></u>

## Condensed consolidated cash flow statement

	Note	Six months ended 30 April		Year ended
		2011	2010	31 October
		£000's (unaudited)	£000's (unaudited)	£000's
<b>Cash flows from operating activities</b>				
Cash generated from operations	5	1,984	4,353	4,936
Income taxes paid		(387)	(82)	(754)
<b>Net cash flow from operating activities</b>		<b>1,597</b>	<b>4,271</b>	<b>4,182</b>
<b>Cash flow from investing activities</b>				
Interest received		-	-	9
Purchases of property, plant and equipment and intangible assets		(254)	(65)	(707)
<b>Net cash used in investing activities</b>		<b>(254)</b>	<b>(65)</b>	<b>(698)</b>
<b>Cash flow used in financing activities</b>				
Repayment of borrowings		(2,290)	-	(1,729)
Interest paid		(677)	(706)	(1,748)
Costs on issue of shares		-	-	(68)
<b>Net cash used in financing activities</b>		<b>(2,967)</b>	<b>(706)</b>	<b>(3,545)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,624)</b>	<b>3,500</b>	<b>(61)</b>
<b>Cash and cash equivalents</b>				
Cash and cash equivalents at beginning of year		5,850	5,585	5,585
Effect of foreign exchange rate changes		29	245	326
Net movement in cash and cash equivalents		(1,624)	3,500	(61)
<b>Cash and cash equivalents at end of period</b>		<b>4,255</b>	<b>9,330</b>	<b>5,850</b>

## Consolidated statement of changes in equity

	Share capital £'000	Translation & hedge reserve £'000s	Share premium account £'000s	Merger reserve £'000s	Profit and loss account £'000s	Total equity £'000s (unaudited)
<b>At 1 November 2009</b>	<b>2,903</b>	<b>(4,844)</b>	<b>31,524</b>	<b>2,320</b>	<b>(129)</b>	<b>31,774</b>
<b>Comprehensive income</b>						
Profit for the period	-	-	-	-	488	488
<b>Other comprehensive income</b>						
Movement in cash flow hedge	-	(166)	-	-	-	(166)
Foreign exchange movements	-	(718)	-	-	2	(716)
<b>Total comprehensive income</b>	<b>-</b>	<b>(884)</b>	<b>-</b>	<b>-</b>	<b>490</b>	<b>(394)</b>
<b>Transactions with owners</b>						
Share-based payments	-	-	-	-	(41)	(41)
<b>At 30 April 2010</b>	<b>2,903</b>	<b>(5,728)</b>	<b>31,524</b>	<b>2,320</b>	<b>320</b>	<b>31,339</b>
<b>At 1 November 2010</b>	<b>2,903</b>	<b>(5,130)</b>	<b>31,456</b>	<b>2,320</b>	<b>(12,749)</b>	<b>18,800</b>
<b>Comprehensive income</b>						
Loss for the period	-	-	-	-	(519)	(519)
<b>Other comprehensive income</b>						
Movement in cash flow hedge	-	166	-	-	-	166
Foreign exchange movements	-	(377)	-	-	-	(377)
<b>Total comprehensive income</b>	<b>-</b>	<b>(211)</b>	<b>-</b>	<b>-</b>	<b>(519)</b>	<b>(730)</b>
<b>Transactions with owners</b>						
Share-based payments	-	-	-	-	237	237
<b>At 30 April 2011</b>	<b>2,903</b>	<b>(5,341)</b>	<b>31,456</b>	<b>2,320</b>	<b>(13,031)</b>	<b>18,307</b>

## Notes to the condensed interim financial statements

### 1 PRINCIPAL ACCOUNTING POLICIES

#### Basis of preparation

The figures and financial information for the period ended 30 April 2011 and 30 April 2010 are unaudited and do not constitute the statutory financial statements for that year. The figures and financial information for the year ended 31 October 2010 constitute the statutory financial statements for that year. These 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.

These interim consolidated financial statements of Travelzest plc have been prepared in accordance with the accounting policies set out below and accounting policies adopted for use in the Travelzest plc 2010 Financial Statements except as modified by the amendment of the standards set out below.

In adopting the going concern basis for preparing this condensed interim financial information, the Directors have considered the business activities as well as Travelzest plc's principal risks and uncertainties. Based on Travelzest plc's cash flow forecasts and projections, the Board is satisfied that Travelzest plc will be able to operate within the level of its facilities and available cash for the foreseeable future. For this reason Travelzest plc continues to adopt the going concern basis.

A number of amended standards and interpretations are effective for the current financial year, but none of them has had any material impact on the condensed financial information.

### 2 Segment reporting

The executive management considers the business from an operating division perspective. For management purposes, the Group is currently organised into two operating divisions: merchant operations and agency operations. Within these divisions, businesses are classified by geographical location.

The segment information provided to the executive management is as follows:

#### Total transaction value

	Six months to 30 April		Year ended
	2011	2010	31 October
	£'000s	£'000s	2010
	(unaudited)	(unaudited)	£'000s
Merchant operations	3,984	6,163	20,111
Agency operations	136,701	112,512	197,534
	<b>140,685</b>	<b>118,675</b>	<b>217,645</b>

## Segment reporting (continued)

### Business segments

	Merchant operations			Agency operations			Total		
	Six months ended 30 April		Year ended 31 October	Six months ended 30 April		Year ended 31 October	Six months ended 30 April		Year ended 31 October
	2011 £'000s (unaudited)	2010 £'000s (unaudited)	2010 £'000s	2011 £'000s (unaudited)	2010 £'000s (unaudited)	2010 £'000s	2011 £'000s (unaudited)	2010 £'000s (unaudited)	2010 £'000s
<b>Revenue</b>	4,005	6,159	20,111	15,827	12,776	23,694	19,832	18,935	43,805

### Results

Profit from operations before depreciation									
Depreciation	(1,011)	(966)	232	4,997	4,609	7,029	3,986	3,643	7,261
Amortisation and goodwill impairment	(4)	(52)	(37)	(146)	(137)	(282)	(150)	(189)	(319)
Loss on disposal of tangible and intangible assets	(1)	(37)	(11,530)	(406)	(289)	(648)	(407)	(326)	(12,178)
Profit/(loss) for the Group	-	-	(411)	-	-	-	-	-	(411)
Separately disclosed items	(1,016)	(1,055)	(11,746)	4,445	4,183	6,099	3,429	3,128	(5,647)
Central costs*							(1,557)	(404)	(1,496)
<b>Profit/(loss) before finance items</b>							(542)	(381)	(856)
Finance income							1,330	2,343	(7,999)
Finance costs							-	-	9
<b>Profit/(loss) before tax</b>							(914)	(925)	(1,919)
Income tax (expense)							416	1,418	(9,909)
<b>(Loss)/profit for the period</b>							(935)	(930)	(2,860)
							(519)	488	(12,769)

\* Included within central costs is £4,000 of depreciation and £4,000 of amortisation (2010: £4,000 and £1,000 respectively).

### Group wide disclosures

The UK is the Company's country of domicile. Revenues from external sources are split geographically as follows:

Location	Revenue		Year ended 31 October 2010 £'000s
	Six months to 30 April 2011 £'000s (unaudited)	2010 £'000s (unaudited)	
United Kingdom	5,070	7,015	21,994
North America	14,762	11,920	21,811
<b>Group</b>	<b>19,832</b>	<b>18,935</b>	<b>43,805</b>

### 3 Income tax expense

The income tax expense of £935,000 relates primarily to overseas taxation of £964,000 (2010: £930,000), this represents the application of the effective tax rate for the full year.

#### 4 (Loss)/earnings per share

The calculations for (loss)/earnings per share, based on the weighted average number of shares, are shown in the table below.

	Six months to 30 April		Year ended 31 October
	2011	2010	2010
	£'000s	£'000s	£'000s
	(unaudited)	(unaudited)	
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share being net profit attributable to equity holders of the parent	(519)	488	(12,769)
	<b>Millions</b>	<b>Millions</b>	<b>Millions</b>
Weighted average number of shares for basic (loss)/earnings per share	145.1	145.1	145.1
Weighted average number of shares for fully diluted (loss)/earnings per share	145.1	152.4	145.1

As the Group incurred a loss during the period, the impact of potential shares is anti-dilutive and therefore the dilutive loss per share is the same as the basic loss per share at 0.36p (2010: basic earnings per share 0.34p and fully diluted earnings per share 0.32p).

#### 5 Notes to the condensed cash flow statement

	Six months ended 30 April		Year ended 31 October
	2011	2010	2010
	£'000s	£'000s	£'000s
	(unaudited)	(unaudited)	
Operating profit/(loss)	1,330	2,343	(7,999)
Adjustments for:			
Amortisation	411	327	861
Depreciation	154	193	325
Derivative	49	-	-
Change in inventories	12	9	46
Change in operating receivables	(403)	1,457	(149)
Change in operating payables	151	65	(19)
Goodwill impairment	-	-	11,320
Loss on disposal of property, plant and equipment and intangible assets	-	-	421
Share-based payments	280	(41)	130
Net cash flow from operating activities	1,984	4,353	4,936

#### 6 Separately disclosed items

	Six months ended 30 April		Year ended 31 October
Analysed as:	2011	2010	2010
	£'000s	£'000s	£'000s
	(unaudited)	(unaudited)	
Share-based payment charge/(credit)	280	(41)	130
Move and other new project start up costs	66	-	121
Corporate restructuring costs	460	118	84
Operational companies restructuring costs	751	337	816
Ash cloud and other non-recoverable costs	-	-	345
Loss on disposal of tangible and intangible assets	-	-	421
<b>Total separately disclosed items</b>	<b>1,557</b>	<b>404</b>	<b>1,917</b>

In addition under IAS 38, Intangible Assets, the Group incurred a charge in the period of £411,000 in respect

of intangible asset amortisation (2010: £327,000).

## 7 Derivative financial instruments

Derivative financial instruments, serving primarily to hedge future operative business, are detailed in the accounting policies on financial instruments.

Analysed as:	Six months ended 30 April		Year ended
	2011	2010	31 October
	£'000s	£'000s	£'000s
	(unaudited)	(unaudited)	
Assets arising from derivative financial instruments	-	-	190
Liabilities arising from derivative financial instruments	877	1,020	1,247

Derivative financial instruments, all with a remaining term of less than year, primarily serve to hedge future operative business. The fair value of the financial derivative assets and liabilities has been determined by relevant active market valuations obtained from the Groups bankers. All financial instruments have been designated as hedging instruments in accordance with IAS 39.

## 8 Re-presentation of the 31 October 2010 and 30 April 2010 consolidated income statements

The 2010 income statements have been re-presented to reclassify (30 April: £260,000 and 31 October: £452,000) costs in respect of agents' benefits from administrative expenses to cost of sales.