

FOCUSED FOR GROWTH





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TRAVELZEST IS AN EMERGING TRAVEL GROUP WITH CROSS CONTINENT RETAIL BRANDS AND INTEGRATED TOUR OPERATIONS TO SOME OF THE MOST ATTRACTIVE TRAVEL DESTINATIONS IN THE WORLD.

- **POST TURNAROUND GROWTH**
 In 2009 and 2010 management began a strategic exercise to reduce operating expenses by shifting from a brand-based to a functionally-based organisation. This shift allowed for the consolidation of numerous systems and offices, more efficient strategies and management of resources and a lower cost base upon which to develop the Group.
- **LEADING MARKET BRANDS**
 The Group has various well recognised brands in the UK and North America. Its leading brand in Canada is itravel2000, which firmly holds a leading market position in the leisure travel sector.
- **EXPERIENCED MANAGEMENT TEAM**
 Our team is comprised of travel professionals with great depth and experience in specialist travel products and online and offline retailing, together with non-travel professionals who provide new thinking to the Group.
- **COHESIVE SYSTEMS**
 We have instilled improved management and control by significantly reducing the number of independent systems in the Group.
- **ECONOMIES OF SCALE**
 The Group handles over 300,000 passengers per year, over 2 million room nights, to over 500 destinations. A unified contracting strategy has now been implemented in the Group, which will provide for improved margins and access to inventory.
- **SPECIALIST BRANDS**
 We continue to develop various specialist agency and merchant brands that will allow us to create and manage our customer experience in a more informed and controlled manner.

OUR VISION

OUR VISION IS TO BE A HIGHLY PROFITABLE, SUSTAINABLE HIGH-GROWTH TRAVEL GROUP OFFERING TRAVELLERS THE BEST AVAILABLE ONLINE AND OFFLINE TRAVEL RETAIL SERVICE AND A RANGE OF SPECIALISED HOLIDAY EXPERIENCES.

TO PROVIDE OUR CUSTOMERS WITH THE HIGHEST QUALITY OF SERVICE POSSIBLE



travelzest



AGENCY* OPERATIONS

“TRUSTED
ADVISER”

- Extensive knowledge
- Customer focused
- Product range

INTEGRATED OFFERINGS

- Consistent delivery
- Quality of product and service
- Exclusivities



MERCHANT* OPERATIONS

“DESTINATION
EXPERTISE”

- Specialist knowledge
- Unique offerings
- Purchasing power

* For our companies, see 'structure' page 5

HIGHLIGHTS



WE ARE DELIGHTED BY THE GROUP'S BEST PERFORMANCE ON RECORD

FINANCIAL HIGHLIGHTS

+15%

TOTAL TRANSACTION VALUE

increased to £217.6 million (2009: £189.5 million)

+18%

GROSS PROFIT

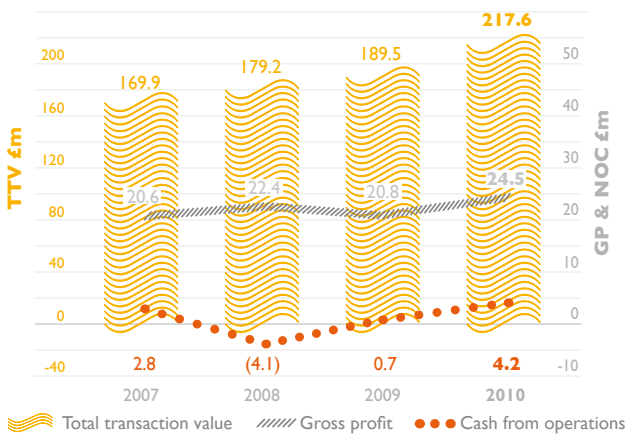
increased to £24.5 million (2009: £20.8 million re-presented)

+513%

CASH FROM OPERATIONS

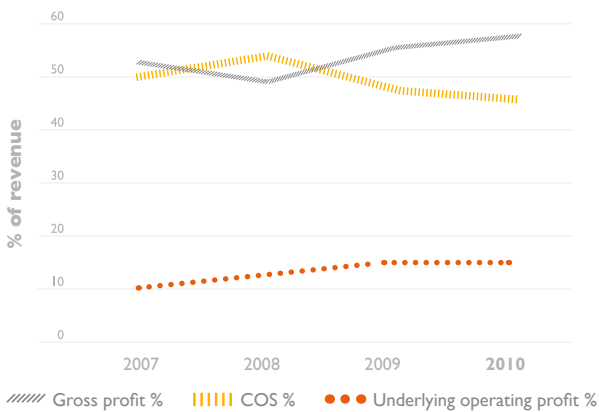
increased to £4.9 million (2009: £0.8 million)

Key Financials



- Record level of underlying* operating profit increased 11% to £6.1 million (2009: £5.5 million)
- Record level of underlying operating profit less separately disclosed items, which increased 56% to £4.2 million (2009: £2.7 million)
- Revenue value increased 14% to £43.8 million (2009: £38.3 million)
- Separately disclosed items decreased 32% to £1.9 million (2009: £2.8 million)
- Basic loss per share of 8.80p (2009: 1.52p profit per share), which was negatively affected primarily due to a charge of £11.3 million for goodwill impairment

Key operating margins



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



DESIGNED FOR
GROWTH AND
SCALABILITY

OPERATIONAL HIGHLIGHTS

9 → 4

RESERVATION SYSTEMS

Providing efficient product management and pricing

4 → 1

ACCOUNTING SYSTEMS

Central Controls Policies & Management

7 → 3

UK OFFICES

Launch of Cheltenham office provides unified Group management

- Unification of group strategies and operations leveraging resources and ideas across the Group
- Continued strong performance from the Group's North American operations
- Launch of luxury brand Travelzest Holidays to UK market to promote all merchant product through one distribution channel
- Consolidation of UK Operations
 - Reduction from seven offices to three, with launch of main Cheltenham hub
 - Reduction of reservation and inventory management systems from seven to two
 - Reduction from four accounting systems to one integrated system
- Independent recognition from industry observers of the quality of service provided by Travelzest Group, including:
 - itravel2000 named one of six "Funtastic" travel partners for 2010 by Carnival Cruise Lines and the only Canadian partner in the group
 - itravel2000 recognised by Super Clubs as Canada's Top Producing agency in 2010 for the sixth year running
 - The Cruise Professionals acknowledged as One of the World's 126 Top Travel Specialists by the elite Conde Nast Traveller magazine

AT A GLANCE



TRAVELZEST'S
STRATEGY IS TO
DEVELOP A UNIFIED
TRAVEL GROUP

MARKETS

Bookings by region



■ Canada 88% ■ US 5%
■ UK 7%

Travelzest is a diverse group of brands that services three markets, the UK, USA and Canada, with Canada representing 88% of our total bookings, the majority of which are generated through our market leading brand itravel2000. We continue to develop our luxury brands and operations in the UK and North America under Travelzest Holidays and The Cruise Professionals, and to review new opportunities to develop a mid market offering in the UK.

Travelzest continues to develop its online capabilities, which currently represent 38% of our total bookings. With consumers in North America and the UK increasing their shopping and purchasing of travel through the online channels, Travelzest is positioning its brands as an attractive choice for consumers.

Bookings by sales channel



■ Offline 62% ■ Online 38%

Priorities for 2010–2011

- Launch of Travelzest Holidays into North American market
- Integration of new product into distribution channels
- Develop advanced online tools
- Develop the Travelzest Holidays brand in the UK
- Office consolidation in Canada

GROUP STRATEGY

- 1 Strengthen retail offering with more product choice
- 2 Development of upper mid-market and luxury segment under Travelzest Holidays brand
- 3 Reduce cost of post sale servicing through development of advanced online tools
- 4 Development of regional markets with new advertising and promotional campaigns
- 5 Increase customer retention through improved service and expanded product awareness












Our UK strategy is to continue to develop the Travelzest Holidays brand, which was launched in late 2010. The strategy for Travelzest Holidays is to bring together the various merchant brands in the Group under a single distribution platform. We will also be introducing additional products from third parties that meet our commitment to superior quality and service, and introducing the brand to the North American market to further develop our luxury offering.

The Cruise Professionals is our strongest luxury retail brand and we will continue to review opportunities to promote and service consumers in North America and UK through new distribution capabilities and product offerings.

itravel2000 continues to be Travelzest's strongest and largest asset with the brand representing a substantial portion of our booking volume and revenue. We will continue to develop the itravel2000 brand in Canada and expand its visibility in regional markets through new promotions and product offerings.

STRUCTURE

Agencies		
	North America	United Kingdom
Luxury Segment	 	 
Upper Mid Market Segment	  	  
Mid Market Segment		 

Merchants							
Africa	Asia	Europe	North America	South America	Cuba	Caribbean	Mid East
							
							
							
							
							

CHAIRMAN'S STATEMENT

THE YEAR
OF PROGRESS
AND
IMPROVEMENT

The year to 31 October 2010 was the first full year for Travelzest under the executive leadership of Jonathan Carroll and Jack Fraser, who were appointed in May 2009. It was a year of progress and improvement.

The restructuring of the Group's operations, which commenced in 2009, continued apace and this investment has begun to yield benefits. We simplified our operating structure and now have an integrated and common approach to advertising, marketing, product purchase and support services. The aim of this simplification is to provide better management of our businesses and share common skills and customer information between our North American and UK operations.

The consequence of this reorganisation is that Travelzest is evolving from a group of independently managed businesses to a single, unified entity with common controls, processes and governance. This gives greater efficiency and will provide information to enable us to manage the Group effectively.

The Group sells overseas holidays and travel to clients who live mainly in the United Kingdom and North America. Our model provides us with a diversity of geography, currency, seasonality and distribution. This diversity is a strength in an industry where an excessive exposure to any of these risks is potentially very damaging. The power of Travelzest's brands and the retailing ability of our businesses, particularly those in Canada, gives us 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.

Your Board is very pleased with the progress made. We expect to see additional benefits of the reorganisation in forthcoming years and believe the Group is well positioned to prosper through the market and economic cycles which are a feature of the travel industry.

We are also in the process of discussing with a number of UK and Canadian banks a refinancing of our facilities on more advantageous terms than those that we currently enjoy. Once in place, this will put the Group in a yet stronger position to capitalise on the market opportunities that we foresee.

Results

Total transaction value has grown 15% to £217.6 million from £189.5 million. Revenue increased 14% to £43.8 million from £38.3 million. Gross profit improved 18% to £24.5 million from £20.8 million, and underlying operating profit before separately disclosed items increased 11% to £6.1 million from £5.5 million.

As part of the Group restructuring that has been undertaken, your Board has decided to write-off the remaining goodwill of £11.3 million relating to our UK businesses. This decision was taken after reviewing the performance of the UK operations since they were acquired and the ability of the UK operations to generate improved returns in the near future.



GROUP IS WELL POSITIONED TO PROSPER

The basic loss per share of 8.80p (2009: 1.52p profit per share) is based on a loss of £12,769,000 (2009: profit of £719,000) and 145,136,110 (2009: 47,231,425) shares of 2p, being the average number of shares in issue during the year.

The Company ended the year with net debt of £8.8 million (2009: £9.6 million).

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

Acquisitions

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

People

I thank all who work for the Travelzest group of companies for their dedication and endeavour. Every year brings its challenges in the travel industry and last year was no exception. We had a difficult economic environment on both sides of the Atlantic, compounded by the quite unforeseen disruption caused by the Icelandic ash cloud. Throughout, our people worked hard and selflessly, serving our clients and helping build a successful Travelzest.

Peter Thomson retired as a non-executive Director on 12 March 2010. Peter was always independent and challenging and we thank him for his service. We are fortunate that Nigel Jenkins joined the Board on

12 April 2010 as a non-executive Director. Nigel is steeped in the travel industry having worked for, inter alia, First Choice, and having established his own successful business, Unijet. He is also a director of All Leisure Group plc.

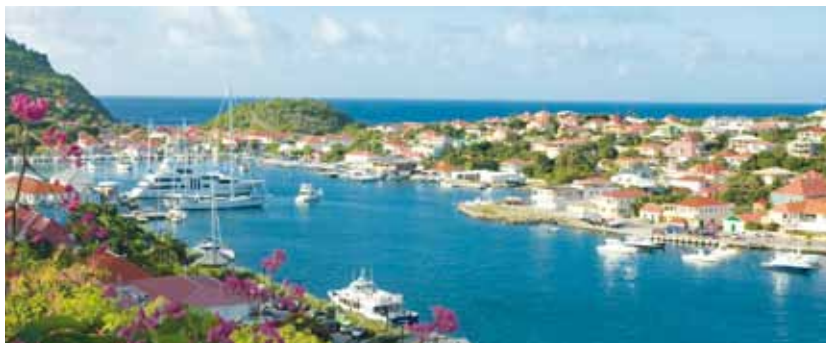
Outlook

We are cautiously optimistic about our markets for the next 12 months. The UK economic climate is likely to remain difficult, with consumer confidence dented by public sector expenditure cuts. However, we are more positive about the Canadian economy, which accounts for a substantial portion of our North American activity. Here we see an improvement in consumer confidence, which we hope will be translated into new business for the Group. As ever, the late booking market is important and we continue to focus marketing effort on this area.

Mark T J Molyneux Chairman

7 February 2011

CHIEF EXECUTIVE'S STATEMENT



WE HAVE OVERCOME
SOME VERY
CHALLENGING
OBSTACLES TO
PRODUCE A STRONG
PERFORMANCE

I am delighted with our results for financial year 2010. We have overcome some very challenging internal and external obstacles to produce a strong performance for the year and to build an excellent platform for the future. The past two years have brought great change for Travelzest and the way we manage our business. We are now in a position to capitalise on these changes and develop the Group in a more efficient and strategic way.

In the past year we encountered a series of challenging market events. These motivated our team to work beyond the normal call to achieve success. The events of particular note were the closure of many airports in Europe and one in Canada as a result of the Icelandic ash cloud, and the demise of Skyservice Airlines in Canada. Both these events caused some of our clients enormous disruption and problems which we resolved for them. These issues were addressed while we were facing a difficult economic situation around the world that put enormous pressure on consumers choosing their travel holidays and destinations.

Group performance

The Group has produced record financial results with transaction value growth of 15% to £217.6 million. This is the first time in the Company's history that we have achieved a transaction level over £200 million, despite the difficult trading environment all of which was achieved through organic growth. This organic growth was primarily driven by our North American operations, which performed strongly. Revenue was up 14% to £43.8 million, gross profit up

18% to £24.5 million, and underlying operating profit up 11% to £6.1 million. Perhaps the most significant financial achievement in the year was the increase in cash generated from operations, up 513% to £4.9 million. This allowed the Company to execute on its strategic plans and to service its debt facilities as restructured in 2009.

During the year we completed the largest part of the restructuring of the Group. The tasks involved were not trivial and their completion within the time frame we set was challenging. We have completed in one year the consolidation of nine reservation systems to four, five accounting systems to one, and 10 offices to six. The management of the organisation has shifted from a brand-based to predominately functionally-based structure with common marketing, purchasing, accounting and human resource practices. These actions will enable us to develop and manage new strategies that will allow us to grow the Group substantially.

The shared services structure provides the ability to manage the Group more efficiently with better control over our operations. It also provides a level of governance that gives the Board the confidence that our team is performing and managing as expected.

North American Operations

Our team in North America performed exceptionally well with both itravel2000 and The Cruise Professionals having a strong year. We continue to develop our product suite to offer more choice to our North American customers and



WE NOW HAVE
A TEAM AND
STRUCTURE THAT
IS FOCUSED FOR
GROWTH

Separately disclosed items:	2010 £000s	2009 £000s
Share-based payment charge/(credit)	130	(557)
Move and other new project start up costs	121	20
Corporate restructuring costs	84	1,187
Operational companies' restructuring costs	816	1,998
Placing fees	–	127
Ash cloud and other non-recoverable costs	345	–
Loss on disposal of tangible and intangible assets	421	–
Total	1,917	2,775

will launch new products in 2011 that will advance this strategy. In 2011 we will review our distribution channel capabilities in both itravel2000 and The Cruise Professionals. We believe we can build on our successes and develop these channels further, enhancing our service and improving our conversion rate.

We will also be launching our new upper mid-market/luxury offer through Travelzest Holidays into North America. This will complement our current offer to this market segment, which books through The Cruise Professionals, and will also provide a more complete offering of land and air products.

United Kingdom Operations

Our team in the UK underwent considerable change in 2010, with the consolidation of five of our offices into one new integrated office in Cheltenham. With eight of our 10 brands in the UK now managed by the team in this facility, we are seeing new strategies being discussed on how to reinvigorate our offering to new and former customers. We have recently launched a new

inventory and reservation system that will service nine of the 10 brands in the UK, and which is capable of expansion into new jurisdictions and currencies. This is a core strategy for our distribution in the UK as it allows us to promote and manage our complete suite of products from our legacy seven merchant brands. It also allows the promotion of new products from our integrated merchants or third party suppliers.

Separately disclosed items

During the year the Group incurred separately disclosed costs totalling £1.9 million (2009: £2.8 million), a 32% reduction from the prior year. These have been separately disclosed to enable a better understanding of the results of the Group.

Financing

We are currently reviewing our financing needs for the next three years and have begun discussions with several banks in both the UK and Canadian markets to identify the best commercial terms available. Once in place, this new financing will put the

Group in a yet stronger position to capitalise on the market opportunities that we foresee.

Summary

We are excited about the next 12 months and the opportunities our new structure presents. I cannot over-emphasise our appreciation to the team that has stuck with us through the changes we have made and in the difficult market conditions. We are extremely proud of their achievement in such a short period. Jack Fraser and I thank them for their dedication and contribution.

We now have a team and structure focused for growth.

Jonathan Carroll Chief Executive

7 February 2011

GOVERNANCE: BOARD OF DIRECTORS



Mark Molyneux
Chairman

Mark Molyneux, was appointed to the Travelzest board as a non-executive director in October 2006. He is a Chartered Accountant and chairs two other companies which are Private Equity backed. Mark was until 2006 a UK partner with Ernst and Young LLP accountancy firm where he held senior management roles. His initial specialisation was audit, mainly entrepreneurial companies, later moving into corporate finance with a focus on M&A, due diligence and restructuring.



Jonathan Carroll
Group Chief Executive

Jonathan Carroll was appointed to his current position as Group Chief Executive Officer in May 2009. Prior to which Jonathan was President of itravel2000 which he was also a co-founder of in 1994. With Jonathan's vision and leadership skills, he formed a team of dedicated travel professionals that set the standard in the Canadian market place. Jonathan is a strong believer in giving back to the community. Jonathan's charity work extends into the community through his involvement and support of numerous charities. He is also a founding board member of the Lakefield College School Foundation, which also boasts his Royal Highness, the Duke of York as a Trustee. In 2006, Jonathan Carroll was awarded the prestigious Top 40 Under 40 Award honouring the best and most accomplished young professionals in Canada.



Jack Fraser
Group Chief Operating Officer &
Finance Director

Jack Fraser was appointed as Group Chief Operating Officer and Finance director in May 2009. Prior to this, Jack was Chief Financial Officer and Head of Corporate Development for itravel2000 and led the sale of itravel2000 to Travelzest in 2006. Prior to joining itravel2000 in February 2005, Jack spent over 10 years with RBC Financial Group and BMO Financial Group primarily in the mid-market corporate finance groups. Jack also spent 5 years in corporate development and senior operational roles with two early stage internet media companies, CMGi/ Activate located in Seattle (acquired by Loudeye/ Nokia Corp.) and Fastvibe located in Toronto (acquired by Telus Corp.). Jack also advises various early stage media and technology start-ups, and sits on the Board of directors for the Windsor International Airport.



Richard Hall TD, MA, FCA
 Non-executive Director &
 Company Secretary

With a Cambridge degree in engineering and law, 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 companies he took to the main market. Since 1989, Richard has run his own consultancy with a number of non-executive directorships, including an AIM listed company offering corporate, commercial and financial advice to major clients. He joined the board of VFB Group plc in 2003 (VFB Group name changed to Travelzest in 2005) prior to the company joining the OFEX market (now PLUS market).



Nigel Jenkins
 Non-executive Director

Nigel Jenkins, has been involved in the travel industry for 35 years. A founding director of Unijet in 1981 he joined First Choice Holidays PLC in 1998. Nigel led the restructure and turnaround of their Canadian division before returning to the UK in 2004 to become Managing Director of their Activity Holiday Sector and a member of their Group Management Board. Nigel retired from First Choice in October 2006. Nigel is currently non-executive Chairman of KBC PR & Marketing, and non-executive director of All Leisure Group plc.

GOVERNANCE: DIRECTORS' REPORT

The directors present their report and the financial statements of the Group and Company for the year ended 31 October 2010.

Principal activities and business review

The principal activity of the Company during the year was that of a parent and holding company. The principal activity of the Group during the year was the provision of retail travel sales and tour operation.

The business is reviewed in detail in the Chairman's and Chief Executive's statements. Management review a number of indicators when assessing the performance of the Group. Key amongst these indicators are total transaction value, revenue and gross profit, which are discussed in the Chairman's and Chief Executive's statement. The directors do not propose a dividend in respect of the year (2009: Nil).

Director changes and reappointment

In accordance with the Company's Articles of Association J G Carroll will retire and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting. N J Jenkins (appointed 12 April 2010) will be formally listed for election at the forthcoming Annual General Meeting. N Robb and P Thomson resigned as directors of Travelzest plc effective 31 January 2010 and 12 March 2010 respectively.

Directors' interests

The directors of the Company who were in office at the date of signing the financial statements, together with their beneficial interest in the shares of the Company, were as follows:

	Class of share	At 4 January 2011	At 31 October 2009
J G Carroll*	Ordinary 2p	–	–
J C Fraser	Ordinary 2p	9,365,887	13,280,000
R G Hall	Ordinary 2p	521,100	521,100
N J Jenkins (appointed 12 April 2010)	Ordinary 2p	260,000	–
MT J Molyneux	Ordinary 2p	15,559,682	15,559,682

* As at 4 January 2011, 6615716 Canada Inc. held 4,957,614 Ordinary 2p Shares. These shares are controlled by the Ely Trust. J G Carroll was a beneficiary of the Ely Trust at 31 October 2009. This is a discretionary inter vivos trust as disclosed in the shareholder circular dated 5 August 2009. During the current financial year, J G Carroll was removed as a beneficiary of the Ely Trust and J G Carroll is currently disputing his removal. J G Carroll claims a 22.5% interest in the holdings of Ely Trust.

The following directors had interests in options to purchase shares in the Company:

	Expiry date	Exercise price	Number held	
			At 31 October 2010	At 31 October 2009
J G Carroll	10 February 2020	8.25p	6,220,119	–
J G Carroll	30 June 2020	18.5p	6,000,000	–
J C Fraser	19 October 2016	127p	78,740	78,740
J C Fraser	10 February 2020	8.25p	6,220,119	–
J C Fraser	30 June 2020	18.5p	6,000,000	–
MT J Molyneux	10 February 2020	8.25p	4,146,746	–

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Major shareholders

On 4 January 2011 the Company's share register showed the following interests in 3 percent or more of the Company's shares:

	Class of share	Number	Percentage of class
Gartmore Investment Management	Ordinary 2p	43,207,077	29.77%
Merchant Securities Limited (held on behalf of its private clients)	Ordinary 2p	20,750,792	14.30%
MT J Molyneux	Ordinary 2p	15,559,682	10.72%
A Gardner	Ordinary 2p	10,751,285	7.41%
J C Fraser	Ordinary 2p	9,365,887	6.45%
LDC Logistics Development Corporation	Ordinary 2p	8,329,572	5.74%
Credit Agricole Cheuvreux International Limited	Ordinary 2p	6,944,000	4.78%
M J Tully	Ordinary 2p	5,432,000	3.74%
6615716 Canada Inc	Ordinary 2p	4,957,614	3.42%
Novum Securities	Ordinary 2p	4,449,210	3.07%

Employment policy

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. The Group gives full consideration to disabled applicants for employment, having regard to their particular aptitudes and abilities and they share in opportunities for training, career development and promotion. The Group also gives full consideration to the continuing employment and training of employees who have become disabled while employed by the Group. It is Management's policy to keep its employees informed on matters affecting them through regular briefings and consultations.

Policy on the payment of creditors

The Group seeks to maintain good relations with all of its trading partners. In particular it is the Group's policy to abide by the terms of payment agreed with each of its suppliers subject to its internal cash flow requirements. As the Company does not trade, no information has been provided about the Company's creditor payment policy. The Group has creditor days of 29 days (2009: 59 days re-presented).

Corporate governance

The Board is committed to high standards of corporate governance.

On 31 October 2010 the Board comprised the non-executive Chairman, two independent non-executive directors and two executive directors. The Board structure ensures that no individual or member of the group dominates the decision making process. The Board meets formally eleven times a year and on such other occasions as are necessary. The Board receives appropriate and timely information, Board and committee papers normally being sent out several days before meetings take place. All directors have access to the advice and services of the Company Secretary. The Board delegates specific responsibilities to the Board committees detailed below.

The Company's Articles of Association require that at the Annual General Meeting any director then in office who has been appointed by the Board since the previous Annual General Meeting or has held office for three years or more since he was appointed or last re-appointed by the Company in general meeting, shall retire and be eligible for re-appointment.

GOVERNANCE: DIRECTORS' REPORT

continued

Corporate governance continued

The Board is content with the corporate policies and procedures for treasury, contract management, purchase orders, expenses, human resources, payroll, and accounting.

Audit Committee

The Audit Committee, which meets up to three times a year, comprises R G Hall (Chairman), M T J Molyneux and N J Jenkins (P Thomson resigned 12 March 2010), of whom R G Hall and N J Jenkins are independent non-executive directors.

The committee's terms of reference include monitoring the integrity and clarity of the financial statements and any formal announcements relating to the Group's financial performance and reviewing any significant financial reporting issues and judgements which they contain; reviewing the consistency of, and any changes to, accounting policies, the application of appropriate accounting standards and the methods used to account for significant or unusual transactions; reviewing the effectiveness of the Group's internal controls and risk management systems; making recommendations as to the appointment, terms of engagement and remuneration of the external auditors; assessing the external auditors' independence, objectivity and effectiveness; approving the annual external audit plan and reviewing with the external auditors the nature, scope and results of their audit and any issues raised by them.

Remuneration Committee

The Remuneration Committee comprises N J Jenkins ((Chairman) (P Thomson resigned as Chairman 12 March 2010)), R G Hall and M J T Molyneux, of whom R G Hall and N J Jenkins are independent non-executive directors, and meets as necessary. The committee is responsible for the executive directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options (save as to any options or bonuses granted to M T J Molyneux, when he will not participate in the committee's considerations).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the following financial statements and notes to the financial statements. In addition this report includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The current economic conditions create uncertainty particularly over the level of demand for the group's products, which are also sensitive to the exchange rate between sterling and operational currencies.

The directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. The Group is currently negotiating a new debt capital structure on terms more favourable to the business.

Principal risks and uncertainties

The nature of the industry that the Group operates in has considerable political, economic and environmental risks. The various environmental risks such as hurricanes, volcanic eruptions or any event that causes the closure or disruption of travel capabilities is an unknown risk to the Group. Political and economic risks are difficult to predict however management has the ability to mitigate the impact of these risks on the business.

Financial risk management objectives and policies

Details of the Group's financial risk management objectives and policies are detailed in Note 27 to the Group financial statements.

Political and charitable donations

The Group made no political donations during the year (2009: £Nil). The Group makes various donations to charitable groups throughout the UK and North America in the form of travel contributions. The occurrence of cash contributions is limited with one item of significant occurrence by itravel2000 with donations made to the One X One organisation totalling £37,000 (2009: £Nil).

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418, each director in office at the date the directors' report is approved, confirm that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

R G Hall

Director and Company Secretary

7 February 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELZEST PLC

We have audited the Group financial statements of Travelzest plc for the year ended 31 October 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of changes in equity, the Group principal accounting policies and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2010 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Travelzest plc for the year ended 31 October 2010.

John Minards

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

7 February 2011

PRINCIPAL ACCOUNTING POLICIES

General information

Travelzest plc (the 'Company') and its subsidiaries (together, the 'Group') provide retail travel sales and merchant operation services.

The Company is a public limited Company, which is listed on the AIM, a market operated by the London Stock Exchange plc. The address of its registered office is 2nd Floor Delta Place, 27 Bath Road, Cheltenham, Gloucestershire, GL53 7TH, United Kingdom.

Basis of preparation

The consolidated financial statements of Travelzest plc have been prepared in accordance with IFRS as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The financial statements have been prepared on a going concern basis.

Going concern

The directors have a reasonable expectation that the Group has sufficient resources to continue to operate for the foreseeable future. The Group is currently negotiating a new debt capital structure on terms more favourable to the business.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements:

Revenue

Management make critical judgements in determining when to recognise income. The recognition is based on whether companies within the Group are an agent (formerly travel agent) or merchant (formerly tour operator). Revenue is recognised when it can be measured reliably. Revenue and direct expenses relating to tours arranged by the Group's merchant operators are taken to the income statement on the date of holiday departure. Revenue relating to 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 and are non-refundable. In all cases recognition occurs when it is probable that the economic benefits associated with the transaction will flow into the Group, and the costs incurred or to be incurred can be measured reliably.

Impairment

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

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 approved and unapproved options schemes, and it adopts the Monte-Carlo Simulation pricing model for management incentive options. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and risk-free interest rate.

Fair value of financial instruments

Management uses active market quotes to measure the fair value of 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. The carrying value of derivative assets and liabilities is set out in Note 19.

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. The carrying value of deferred tax assets and liabilities is set out in Note 14.

Litigation

Where the Group has an outstanding legal claim against it an appropriate accrual or provision is recognised in respect of the expected settlement.

PRINCIPAL ACCOUNTING POLICIES

continued

Business combinations

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated financial statements at their fair values, which are 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 are recognised against the liability, and through the income statement. 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairment tests for goodwill were conducted on the basis of cash-generating units. According to the IFRS rules, a cash-generating unit is the smallest identifiable Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or Groups of assets. Cash-generating units were established for the individual merchant operators, and for the agency businesses, in specific countries. The expected cash flows generated are discounted using rates that represent estimated weighted average cost of capital for the respective business. The approach, assumptions and results of the impairment test are set out in Note 8.

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.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the relationship. These have been classified as Other intangible assets.

Costs that are directly associated with the purchase and implementation of websites 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. Intangible assets are carried at cost less accumulated amortisation and impairment.

Other intangible assets are accounted for at cost 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. The estimated useful economic life of these assets are as follows:

Other intangible assets	– 1 to 6 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
Office equipment and computer equipment	– 3 to 5 years
Motor vehicles	– 3 to 5 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Financial assets

i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise Trade and other receivables and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

ii) Recognition and measurement

The Group measures its financial assets initially at fair value. The subsequent measure depends on classification, for example trade and other receivables which are fixed price are carried at amortised cost (if applicable) using an effective interest method if the time value of money is significant. Due to the nature of the businesses, credit risk is deemed low, therefore amortisation or impairment is unlikely.

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 measurement depends on classification, for example financial liabilities measured at amortised cost having been initially recognised at fair value (in case of borrowing, fair value of proceeds net of issue costs), are subsequently measured at amortised cost (if applicable) using an effective interest method taking into account discounts and issue costs. This category of financial liability includes borrowings and trade and other payables.

Derivatives designated as hedging instruments 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 probable 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 recognised in the income statement.

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 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.

PRINCIPAL ACCOUNTING POLICIES

continued

Derivative financial instruments and hedging continued
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 is 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.

Revenue represents the aggregate amount of gross consideration receivable from inclusive tours, agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenue and direct expenses relating to the inclusive tours arranged by the Group's merchant leisure travel providers are taken to the income statement on holiday departure. Revenue relating to 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 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

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

The Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Foreign currency

(a) Functional and presentation 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. On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings designated as hedges of such investments, are recognised in equity.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. The Group's third party borrowings qualify as a hedge. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of transaction (not retranslated). Non-monetary items are 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 or Monte-Carlo Simulation pricing models. 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. When the options are exercised, the Company issues new shares. The proceeds

received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The Group also issued a cash bonus award which is recorded as cash settled share-based compensation. The fair value of the cash bonus award is calculated using the Monte-Carlo Simulation pricing model at each reporting date. The fair value is charged to the income statement with a corresponding entry to non-current liabilities.

Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered to be an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

PRINCIPAL ACCOUNTING POLICIES

continued

Equity and reserves continued

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 are depreciated over the shorter of the useful life of the asset and the lease term.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the executive management, who are responsible for allocating resources and assessing performance of the operating segments.

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.

Impact of new International Financial Reporting Standards adopted in the year by the Group

The following amendments to standards and interpretations are required to be implemented for the financial year ended 31 October 2010:

New Standard IFRS 8 – Operating Segments

The new standard requires segmental information to be presented on the basis of how the chief operating decision maker manages the business. The implementation of the standard has resulted in additional disclosures being made within Note 1.

Revised IAS 1 – Presentation of financial statements

The IAS has amended the presentation of the income statement and statement of recognised income and expense. The adoption of this standard has impacted the presentation of the primary statements in the current year and a separate Consolidated statement of comprehensive income has been included within the financial statements.

Amendments to IFRS 7 – Financial Instruments: Disclosures

The implementation of the standard has resulted in additional disclosures being made within Note 27.

Revised IFRS 3 – Business combinations and Revised IAS 27 – Consolidated and separate financial statements

There has been no impact on adoption of these standards in the current financial year but management will consider the impact any potential business combinations made by the Group going forwards.

New Financial Reporting Standard adopted in the year

The following amendments to existing International Financial Reporting Standards and new International Financial Reporting Standards have been adopted by the Group during the year with no impact:

- Revised IFRS 1 – First time Adoption of IFRS
- Amendments to IFRS 1 – First time Adoption of IFRS and IAS 27 – Consolidated and Separate Financial Statements on the Cost of an Investment in a Subsidiary Jointly Controlled Entity or Associate
- Revised IAS 23 – Borrowing Costs
- Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements on Puttable Financial Instruments and Obligations arising on Liquidation
- Amendments to IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations
- Amendment to IAS 39 – Financial instruments: Recognition and measurement on Eligible hedged items
- IFRIC 12 Service concession arrangements
- IFRIC 13 Customer loyalty programmes relating to IAS 18, Revenue
- IFRIC 14 (Amendment) “Prepayments of a minimum funding requirement”
- IFRIC 16 “Hedges of a net investment in a foreign operation”
- IFRIC 17 “Distributions of non-cash assets to owners”
- IFRIC 18 “Transfer of assets from customers”

New and Amended Standards adopted by the European Union but not yet adopted by the Group

The following new and amended standards and interpretations are required to be implemented for the financial years ended from 31 October 2011 onwards:

- Annual improvements 2009
- Amendments to IFRS 2 – Share-based Payment: Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 1 for additional exemptions
- Amendments IAS 32 Financial instruments: Presentation on classification of rights issues
- Amendment to IFRS 1, First time adoption on financial instrument disclosures
- IFRIC 15 Arrangements for construction of real estates
- IFRS 19 Extinguishing financial liabilities with equity instruments

Management is currently reviewing these new and amended standards and the impact on the Group's financial statements.

CONSOLIDATED INCOME STATEMENT

	Notes	Year to 31 October 2010 £000s	Re-presented* Year to 31 October 2009 £000s
Total transaction value	1	217,645	189,456
Revenue	1	43,805	38,349
Cost of sales		(19,342)	(17,506)
Gross profit		24,463	20,843
Administrative expenses		(32,462)	(19,550)
Operating (loss)/profit	2	(7,999)	1,293
Analysed as			
Underlying operating profit		6,099	5,466
Separately disclosed items	2	(1,917)	(2,775)
Amortisation of intangible assets and goodwill impairment	2	(12,181)	(1,398)
		(7,999)	1,293
Finance income	5	9	105
Finance costs	5	(1,919)	(1,440)
Loss on ordinary activities before taxation		(9,909)	(42)
Income tax (expense)/credit	6	(2,860)	761
(Loss)/profit for the year		(12,769)	719
Basic (loss)/earnings per share	7	(8.80)p	1.52p
Fully diluted (loss)/earnings per share	7	(8.80)p	1.52p

All results are from continuing operations.

* Refer to Note 25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year to 31 October 2010 £000s	Year to 31 October 2009 £000s
(Loss)/profit for the year	(12,769)	719
Other comprehensive income		
Currency translation differences	(578)	(2,661)
Movement in cash flow hedge	292	(198)
Other comprehensive income, net of tax	(286)	(2,859)
Total comprehensive income for the year	(13,055)	(2,140)

CONSOLIDATED BALANCE SHEET

	Notes	31 October 2010 £000s	Re-presented* 31 October 2009 £000s
ASSETS			
Non-current assets			
Deferred tax	14	–	1,351
Goodwill	8	29,809	41,129
Intangible assets	9	2,619	3,202
Property, plant and equipment	10	1,262	1,435
		33,690	47,117
Current assets			
Inventories		18	64
Trade and other receivables	11	7,560	8,174
Derivative financial instruments	13	190	373
Cash and cash equivalents	12	5,850	5,585
		13,618	14,196
Total assets		47,308	61,313
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent Company			
Share capital	15	2,903	2,903
Share premium account		31,456	31,524
Merger reserve		2,320	2,320
Translation and hedge reserve		(5,130)	(4,844)
Retained earnings		(12,749)	(129)
Total equity		18,800	31,774
Non-current liabilities			
Trade and other payables	18	622	6
Borrowings	17	9,733	13,144
Obligations under finance leases	17	273	347
Deferred tax	14	484	871
		11,112	14,368
Current liabilities			
Trade and other payables	18	10,031	11,430
Borrowings	17	4,503	1,596
Obligations under finance leases	17	107	88
Derivative financial instruments	19	1,247	1,691
Current tax liabilities	18	1,508	366
		17,396	15,171
Total liabilities		28,508	29,539
Total equity and liabilities		47,308	61,313

*Refer to Note 25

The financial statements were approved by the Board of directors on 7 February 2011 and signed on its behalf by

J G Carroll
Director

J C Fraser
Director

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year to 31 October 2010 £000s	Year to 31 October 2009 £000s
Cash flows from operating activities			
Cash generated from operations	24	4,936	754
Income taxes paid		(754)	(42)
Net cash flow from operating activities		4,182	712
Cash flow from investing activities			
Interest received		9	32
Acquisition of subsidiary		–	(11)
Purchases of property, plant and equipment and intangible assets		(707)	(446)
Disposal of property, plant and equipment and intangible assets		–	216
Net cash used in investing activities		(698)	(209)
Cash flow used in financing activities			
Repayment of borrowings		(1,729)	(1,500)
Interest paid		(1,748)	(1,315)
(Costs)/proceeds on issue of shares*		(68)	4,785
Net cash (used in)/provided from financing activities		(3,545)	1,970
Net (decrease)/increase in cash and cash equivalents		(61)	2,473
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		5,585	5,077
Effect of foreign exchange rate changes		326	(1,965)
Net movement in cash and cash equivalents		(61)	2,473
Cash and cash equivalents at end of year		5,850	5,585

*Costs of £68,000 (2009: gross proceeds £5,709,000 less costs of £924,000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Translation & hedge reserve	Share premium account	Merger reserve	Profit and loss account	Total equity
	£000s	£000s	£000s	£000s	£000s	£000s
At 1 November 2008	13,142	(1,985)	16,779	2,320	(291)	29,965
Comprehensive income						
Profit for the year	–	–	–	–	719	719
Other comprehensive income						
Movement in cash flow hedge	–	(198)	–	–	–	(198)
Foreign exchange movements	–	(2,661)	–	–	–	(2,661)
Total comprehensive income	–	(2,859)	–	–	719	(2,140)
Transactions with owners						
Exchangeable shares	(12,524)	–	12,524	–	–	–
Issue of shares	2,285	–	3,425	–	–	5,710
Costs of share placing	–	–	(1,204)	–	–	(1,204)
Share-based payments	–	–	–	–	(557)	(557)
Transactions with owners	(10,239)	–	14,745	–	(557)	3,949
At 1 November 2009	2,903	(4,844)	31,524	2,320	(129)	31,774
Comprehensive income						
Loss for the year	–	–	–	–	(12,769)	(12,769)
Other comprehensive income						
Movement in cash flow hedge	–	292	–	–	–	292
Foreign exchange movements	–	(578)	–	–	–	(578)
Total comprehensive income	–	(286)	–	–	(12,769)	(13,055)
Transactions with owners						
Issue of shares	–	–	(68)	–	–	(68)
Share-based payments	–	–	–	–	149	149
Transactions with owners	–	–	(68)	–	149	81
At 31 October 2010	2,903	(5,130)	31,456	2,320	(12,749)	18,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I Segment reporting

Management has determined the reportable operating segments based on the information which is reviewed by the executive management, which is considered to be the chief operating decision maker. 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. Merchant operations revenue is primarily when the Group becomes principal on the transaction and defines the terms of the transaction with the consumer. Agency operations revenue is primarily when the Group passes on to the consumer the majority of the terms of sale from the ultimate supplier and earns a commission for completing the transaction.

The segment information provided to the executive management for the year ended 31 October 2010 is as follows:

Total transaction value	2010 £000s	2009 £000s
Merchant Operations	20,111	19,153
Agency Operations	197,534	170,303
	217,645	189,456

All revenues in 2010 and 2009 are in respect of external customers. The Group is not reliant on any one major customer (2009: none).

Business segments

	Merchant Operations		Agency Operations		Total	
	Year to 31 October		Year to 31 October		Year to 31 October	
	2010 £000s	2009 £000s	2010 £000s	2009 £000s	2010 £000s	2009 £000s
Revenue	20,111	19,153	23,694	19,196	43,805	38,349
Results						
Profit from operations before depreciation	232	918	7,029	5,062	7,261	5,980
Depreciation	(37)	(41)	(282)	(251)	(319)	(292)
Amortisation of intangible assets and goodwill impairment	(11,530)	(525)	(648)	(868)	(12,178)	(1,393)
Loss on disposal of tangible and intangible assets	(411)	–	–	–	(411)	–
Profit/(loss) for the Group	(11,746)	352	6,099	3,943	(5,647)	4,295
Separately disclosed items					(1,496)	(2,775)
Central costs*					(856)	(227)
Operating (loss)/profit					(7,999)	1,293
Finance income					9	105
Finance costs					(1,919)	(1,440)
Loss before tax					(9,909)	(42)
Tax					(2,860)	761
(Loss)/profit for year					(12,769)	719

* Included within central costs is £6,000 of depreciation, £3,000 of amortisation and £10,000 of loss on disposal of tangible and intangible assets (2009: £9,000, £5,000 and £Nil respectively).

During the year merchant operations spent £11,000 on capital expenditures, agency operations spent £672,000, and central operations spent £24,000 (2009: £331,000, £109,000 and £6,000 respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

I Segment reporting continued

	Merchant Operations		Agency Operations		Total	
	31 October		31 October		31 October	
	2010 £000s	Re-presented 2009 £000s	2010 £000s	Re-presented 2009 £000s	2010 £000s	Re-presented 2009 £000s
Segment assets	2,105	15,614	40,773	37,500	42,878	53,114
Unallocated corporate assets	–	–	–	–	4,430	8,199
Consolidated assets	2,105	15,614	40,773	37,500	47,308	61,313
Segment liabilities	(3,619)	(4,369)	(8,391)	(7,829)	(12,010)	(12,198)
Unallocated corporate liabilities	–	–	–	–	(16,498)	(17,341)
Consolidated liabilities	(3,619)	(4,369)	(8,391)	(7,829)	(28,508)	(29,539)
Net assets					18,800	31,774

Group wide disclosures

The UK is the Company's country of domicile. Revenues from external customers and non-current assets are split geographically as follows:

Location	Revenue	
	Year to 31 October 2010 £000s	Year to 31 October 2009 £000s
United Kingdom	21,994	21,391
North America (formerly Canada)	21,811	16,958
Group	43,805	38,349

Location	Non-current assets	
	31 October 2010 £000s	31 October 2009 £000s
United Kingdom	332	12,042
North America (formerly Canada)	33,358	33,724
Group	33,690	45,766

Non-current assets include intangible assets and property, plant and equipment and exclude deferred tax assets. During the year £337,000 was spent on the purchase of intangible and tangible assets in the UK and £370,000 in North America (2009: £337,000 and £109,000 respectively).

2 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2010 £000s	2009 £000s
Depreciation of owned fixed assets	215	222
Depreciation on finance leased assets	110	79
Net gain on foreign currency translation	(205)	(185)
Auditor's remuneration		
Audit of the financial statements pursuant to legislation	52	34
Audit of Group subsidiaries pursuant to legislation	151	102
Other services relating to taxation	53	20
Other services provided pursuant to legislation	22	3
Operating lease costs		
Office equipment	240	150
Property	1,066	962
	1,704	1,387
Amortisation of intangible assets & goodwill impairment		
Amortisation of intangible assets	861	1,398
Goodwill impairment	11,320	–
	12,181	1,398
Separately disclosed items		
Share-based payment charge/(credit) (see Note 16)	130	(557)
Move and other new project start up costs	121	20
Corporate restructuring costs	84	1,187
Operational companies' restructuring costs	816	1,998
Placing fees	–	127
Ash Cloud and other non-recoverable costs	345	–
Loss on disposal of tangible and intangible assets	421	–
	1,917	2,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

3 Personnel costs

The aggregate payroll costs were:

	2010	2009
	£000s	£000s
Salaries	10,098	9,769
Social security costs	1,009	837
Share-based payments	130	(557)
Value of Company pension contributions to money purchase schemes	3	136
	11,240	10,185

The average monthly headcount employed by the Group during the year was:

	2010	2009
	No.	No.
Administrative staff	176	177
Sales staff	147	144
	323	321

4 Directors remuneration

	Salaries and fees¹	Annual Bonus	Benefits	For the year ended 31 October 2010	For the year ended 31 October 2009
	£000s	£000s	£000s	£000s	£000s
Executive directors					
J G Carroll	309	155	27	491	254
J C Fraser ²	257	87	19	363	116
C G McKinlay (resigned 30 June 2009)	–	–	–	–	234
C A L Mottershead (resigned 15 July 2009)	–	–	–	–	302
N Robb (resigned 31 January 2010)	110	–	–	110	123
Non-executive directors³					
R G Hall	31	–	–	31	24
N J Jenkins (appointed 12 April 2010)	26	–	–	26	–
MT J Molyneux	60	–	–	60	60
P Thomson (resigned 12 March 2010)	9	–	–	9	10
Total	802	242	46	1,090	1,123

¹ Payments made during the year converted to sterling.² In prior year J C Fraser was appointed as a director as of 12 May 2009.³ Non-executive directors are reimbursed for their travel expenses incurred related to corporate matters.

In accordance with IFRS 2 Share-based payments, share-based charge relating to directors of £237,000 (2009: credit of £476,000). During the year no directors exercised their share options (2009: Nil). No directors (2009: £Nil) participated in money purchase pension schemes.

5 Finance income/(costs)

	2010 £000s	2009 £000s
Income from interest rate hedges	–	73
Bank interest income	9	32
Finance income	9	105
Bank interest expense	(1,870)	(1,440)
Expense from interest rate hedges	(49)	–
Finance costs	(1,919)	(1,440)
Total	(1,910)	(1,335)

The expenses arising from other interest rate hedges relates to the ineffective element of a basis points swap. Income arising from interest rate hedges reflects the overall credit from effective Canadian dollar and sterling interest rate swaps.

6 Income tax expense

Tax expense comprises:

	2010 £000s	2009 £000s
Current income taxes		
UK corporation tax	–	–
Overseas taxation	1,927	413
Adjustments in respect of prior years	–	(739)
Total current income tax	1,927	(326)
Origination and reversal of temporary differences	(418)	(435)
Adjustments in respect of prior years	1,351	–
Total deferred tax	933	(435)
Income tax expense/(credit)	2,860	(761)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the standard rate of taxation in the UK of 28% as follows:

	2010 £000s	2009 £000s
Loss on ordinary activities before taxation	(9,909)	(42)
Expected income tax at 28% (2009: 28%)	(2,775)	10
Amortisation and impairment	3,529	394
Brought forward tax losses no longer recognised	1,351	–
Tax losses for which no deferred income tax was recognised	672	(104)
Overseas rates differences	77	(177)
Expenses not deductible for tax purposes	6	10
Share options	–	(155)
Effective tax expenses and income relating to other periods	–	(739)
Income tax expense/(credit)	2,860	(761)

No current or deferred tax has been charged or credited to other comprehensive income in 2010 (2009: £Nil). Deferred tax of £34,000 has been credited to equity (2009: £Nil).

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The overall impact is not expected to be material to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

7 Earnings per share

The basic loss per share of 8.80p (2009: 1.52p profit per share) is based on a loss of £12,769,000 (2009: profit of £719,000) and 145,136,110 (2009: 47,231,425) shares of 2p, being the average number of shares in issue during the year.

As the Group made a loss during the year, the impact of potential ordinary shares is anti-dilutive and therefore the dilutive loss per share is the same as the basic loss per share at 8.80p. In 2009, there were no share options/warrants that would constitute a dilutive calculation and therefore the dilutive profit per share was 1.52p.

8 Goodwill

	£000s
Historical cost	
At 1 November 2008	44,087
Additions	93
Reduction to deferred consideration Peng Travel Limited	(41)
Reduction to deferred consideration Tapestry Collection Limited	(160)
Reduction to deferred consideration The Cruise Professionals Limited	(750)
At 31 October 2009	43,229
Additions	–
Disposals	–
At 31 October 2010	43,229
Impairment loss	
At 1 November 2008	(2,100)
Impairment loss	–
At 31 October 2009	(2,100)
Impairment loss	(11,320)
At 31 October 2010	(13,420)
Carrying amount at 31 October 2010	29,809
Carrying amount at 31 October 2009	41,129

Annually or more frequently if events or a change in the economic environment indicate a risk of impairment, the Group assesses the recoverable amount of goodwill allocated to the businesses listed below (determined by reference to the value in use of the continuing operations of the related businesses) as required by IAS 36: Impairment of assets. IAS 36 requires that impairment tests are carried at the level where independent cash flows arose at which the Group's management measures returns on operations.

Goodwill is allocated to the following cash-generating units:

	31 October 2010	31 October 2009
	£000s	£000s
Best of Morocco Limited	–	1,923
Peng Travel Limited	–	1,284
Fair's Fare Limited	–	5,451
Tapestry Collection Limited	–	110
4358736 Canada Inc. (trading as itravel2000)	23,834	23,834
Travelzest Holidays Limited (formerly Wow House Limited)	–	167
Captivating Cuba Limited	–	1,290
JMB Travel Consultants Limited	–	295
The Cruise Professionals Limited	5,975	5,975
Holiday Express (UK) Limited	–	800
	29,809	41,129

For the year ended 31 October 2010 management has undertaken a detailed review of the carrying value of these investments both at a consolidated and company level and have determined that an impairment charge of £11,320,000 is required to write off 100% of the UK goodwill. A full list of the subsidiaries of the Group has been included at Note B to the company financial statements.

In making estimates of future profit and cash flows, the growth rate assumptions that have been applied to each businesses' current year profits are deemed to be appropriate by management.

Growth rate estimates by their nature will include assumptions which have been considered in detail by management. In making assumptions, management has taken into account the following factors:

- Cash flow projections based on the Group's latest approved four year budget plan which are sensitised to consider the impact of current trends in consumer demand;
- Historic results;
- Cash flows are discounted using the Group's weighted average cost of capital, adjusted as appropriate for business specific factors of sector risk, business size and other macro-economic factors relevant to the specific businesses;
- Customer base to which the businesses sell;
- The Group's post tax weighted average cost of capital is 16.5%;
- An average growth rate of 10% over the next four years in Canada and 5% in the UK has been used for the cash generating units above;
- A terminal value multiple of 6 times cash flow has been applied to all segments; and
- The impact of business downturn and changes in interest rates in growth rate assumptions.

If the estimated cost of capital used in determining the pre-tax discount rate for the CGU's above had been 1.0% higher than Management's estimates (for example 17.5% instead of 16.5%) no additional impairment would have been recorded. Using an average growth in cash flows of 7.0% instead of 10.0% in Canada also does not lead to an impairment being recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

9 Intangible assets

	Other intangible assets £000s	Website development £000s	Computer software £000s	Total £000s
At 1 November 2008				
Opening net book amount	1,782	1,638	1,785	5,205
Additions	–	336	–	336
Disposals	–	(83)	–	(83)
Foreign exchange adjustments	–	611	303	914
At 1 November 2009	1,782	2,502	2,088	6,372
Additions	–	274	329	603
Disposals	–	(739)	–	(739)
Foreign exchange adjustments	–	42	162	204
At 31 October 2010	1,782	2,079	2,579	6,440
Amortisation				
At 1 November 2008	125	808	837	1,770
Charge for year	399	591	408	1,398
Disposals	–	(22)	–	(22)
Foreign exchange adjustments	–	(114)	138	24
At 1 November 2009	524	1,263	1,383	3,170
Charge for year	269	357	235	861
Disposals	–	(365)	–	(365)
Foreign exchange adjustments	–	65	90	155
At 31 October 2010	793	1,320	1,708	3,821
Carrying amount at 31 October 2010	989	759	871	2,619
Carrying amount at 31 October 2009	1,258	1,239	705	3,202

Other intangible assets comprises the separately identifiable assets determined from the acquisition of The Cruise Professionals and relates to customer relations (£1,500,000), order backlog (£206,000) and contractual agreements (£76,000) with residual lives of between one and six years. Amortisation of intangible assets is recognised within administrative expenses in the income statement.

10 Property, plant and equipment

	Property improvements £000s	Computer equipment £000s	Office Equipment £000s	Motor Vehicles £000s	Total £000s
At 1 November 2008	633	1,018	783	27	2,461
Additions	–	8	537	–	545
Disposals	–	(116)	(211)	–	(327)
Foreign exchange adjustments	123	(17)	39	–	145
At 1 November 2009	756	893	1,148	27	2,824
Additions	7	50	44	3	104
Disposals	–	(248)	(129)	–	(377)
Foreign exchange adjustments	59	39	67	–	165
At 31 October 2010	822	734	1,130	30	2,716
Depreciation					
At 1 November 2008	15	439	607	27	1,088
Charge for year	75	142	84	–	301
Disposals	–	(14)	(158)	–	(172)
Foreign exchange adjustments	4	107	61	–	172
At 1 November 2009	94	674	594	27	1,389
Charge for year	87	85	153	–	325
Disposals	–	(194)	(136)	–	(330)
Foreign exchange adjustments	7	40	23	–	70
At 31 October 2010	188	605	634	27	1,454
Net book value					
At 31 October 2010	634	129	496	3	1,262
At 31 October 2009	662	219	554	–	1,435

The net book value of assets held under finance leases is £355,000 (2009: £356,000). These are included within office equipment. Depreciation has been charged to administrative expenses.

11 Trade and other receivables

	2010 £000s	2009 £000s
Trade accounts receivable	4,948	4,276
Other receivables	1,852	2,077
Prepayment and accrued income	760	1,821
	7,560	8,174

Other receivables primarily relate to commissions due from tour operators. There are no overdue amounts included in the values above and no amounts are considered to be impaired (2009: £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

12 Cash and cash equivalents

	2010	2009
	£000s	£000s
Cash and cash equivalents	2,924	2,721
Restricted cash	2,926	2,864
	5,850	5,585

Restricted cash consists of:

	2010	2009
	£000s	£000s
Trust accounts	926	864
Loan pledge amount	2,000	2,000
	2,926	2,864

13 Derivative financial instruments

	2010	2009
	£000s	£000s
Receivables from derivative financial instruments	190	373

Derivative financial instruments, all with a remaining term of less than year, primarily serve to hedge future operative business; all instruments are outlined in Note 27. The fair value of the financial derivatives has been determined by relevant valuations obtained from Group bankers based on observable market data and comprises a total gain on forward contracts of £19,000 all recognised to the consolidated income statement and relates to cash flows from November 2009 to October 2010. £171,000 relates to the fair value of a derivative associated with the Let It Snow campaign in Canada. The derivative entered into is to fully mitigate the cash flow risk associated with a specific weather event occurring on 1 January 2011 and the resulting rebate that would be due to qualifying customers of ittravel2000. The table in Note 19 indicates when the cash flows are expected to occur.

14 Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2010	2009
	£000s	£000s
Deferred tax assets		
To be recovered after more than 12 months	–	1,351
To be recovered within 12 months	–	–
Deferred tax liabilities		
To be recovered after more than 12 months	(173)	(311)
To be recovered within 12 months	(311)	(560)
Net deferred tax (liability)/asset	(484)	480

The movement in the deferred taxation (liability)/asset during the year was:

	2010 £000s	2009 £000s
Deferred tax brought forward	480	(776)
Income statement (charge)/credit	(933)	1,256
Tax charge directly to equity	34	–
Exchange differences	(65)	–
Net deferred tax (liability)/asset	(484)	480

The UK tax rate will reduce from 28% to 27% with effect from 1 April 2011. Deferred tax has been provided at 27%.

The movement in deferred income tax assets and liabilities during the year without taking into account offsetting of balances within the same jurisdiction is as follows:

	Accelerated tax depreciation £000s	Recognised in business combinations £000s	Share-based payment £000s	Total £000s
Deferred tax liabilities				
At 1 November 2008	(277)	(499)	–	(776)
(Charged)/credited to the income statement	60	–	(155)	(95)
(Charged)/credited to equity	–	–	–	–
At 31 October 2009	(217)	(499)	(155)	(871)
(Charged)/credited to the income statement	117	240	61	418
(Charged)/credited to equity	–	–	34	34
Exchange differences	(20)	(45)	–	(65)
At 31 October 2010	(120)	(304)	(60)	(484)

	Tax losses £000s	Other £000s	Total £000s
Deferred tax assets			
At 1 November 2008	–	–	–
Credited/(charged) to the income statement	1,351	–	1,351
At 31 October 2009	1,351	–	1,351
(Charged)/credited to the income statement	(1,351)	–	(1,351)
At 31 October 2010	–	–	–

Deferred income tax assets are recognised for loss carry-forwards to the extent that the realisation of the related tax benefit through taxable profits is probable. The Group has unrecognised deferred income tax assets of £1,926,000 (2009: £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

15 Group equity

Authorised share capital:

	2010	2009
	£000s	£000s
259,550,000 ordinary shares of £0.02 each	5,191	5,191

Issued, called up and fully paid:

	2010		2009	
	No.	£000s	No.	£000s
Ordinary shares of £0.02 each	145,136,110	2,903	145,136,110	2,903

In the prior year and in accordance with the Exchange Rights Agreement dated 13 October 2006, Travelzest Holdings Inc., a wholly-owned indirect subsidiary of Travelzest plc, purchased the 10,572,614 Class A shares in 0763756 BC Limited from 6615716 Canada Inc. The shares are issued at 120p. The exchangeable shares were originally issued as part consideration of the acquisition of itravel2000 in October 2006.

In September 2009, the Company issued 114,170,000 issued new ordinary shares of 2p each at a premium of 3p raising £5,710,000. The placing fees associated were £924,000.

All shares are equally entitled to receive dividends and the repayment of capital and represent one vote at shareholders' meeting.

16 Share-based payments**Share options**

	Employee Option Scheme		Management Incentive Plan	
	Number of share options 000s	Weighted average exercise price	Number of share options 000s	Weighted average exercise price
2009				
Outstanding at the beginning of the year	1,457	136p	–	–
Terminated in year	(1,186)	138p	–	–
Granted during the year	–	–	–	–
Outstanding at the end of the year	271	129p	–	–
Exercisable at the end of year	261	130p	–	–
2010				
Outstanding at the beginning of the year	271	129p	–	–
Terminated in year	(167)	97p	–	–
Granted during the year	–	–	28,587	12.1p
Outstanding at the end of the year	104	125p	28,587	12.1p
Exercisable at the end of year	104	125p	–	–

Employee Option Scheme

The Company issues long-term incentive stock options to certain employees under an approved and unapproved option scheme. Both schemes have similar terms that include a minimum vesting period of 3 years from the date of grant and active employment in the Group.

The fair value of options granted were determined using the Black-Scholes pricing model.

An amount of £105,000 (2009: credit of £557,000) relating to share options not vested held by employees who have left in the year has been credited to the income statement.

Management Incentive Plan

The Company detailed in the Shareholder Circular issued 5 August 2009 the creation of a Management Incentive Plan which was agreed by shareholders at the General Meeting of 28 August 2009. In 2010, 28,587,000 options were granted. No options were granted in the prior year. The incentive options have a market exercise price and vest in the event of a sale of the entire issued share capital of the Company for an amount valuing the Company at least 15 pence per Ordinary Share. The options have good leaver and bad leaver terms, and all share options must be exercised within 10 years of the date of grant.

The fair value of options granted has been determined using the Monte-Carlo Simulation which is a generally accepted statistical technique used, in this instance, to simulate a range of possible future stock prices for the Company. The method uses geometric Brownian motion based upon a risk-neutral framework. The model projects stock prices on a daily basis assuming 250 trading days per year. The significant inputs into the calculation for share options granted during the year were the weighted average share price factored into the model of 12.1 pence, the exercise price ranges between 7.5 pence and 18.5 pence, the expected volatility of approximately 85% the option life of 5 years, the expected dividend yield of Nil, and the risk-free interest rate between 2.06% and 2.91%.

Warrants

Details of the share warrants outstanding during the year are as follows:

	2010		2009	
	Number of share options 000s	Weighted average exercise price	Number of share options 000s	Weighted average exercise price
Outstanding at the beginning of the year	5,247	130p	5,247	130p
Granted during the year	–	–	–	–
Outstanding at the end of the year	5,247	130p	5,247	130p
Exercisable at the end of year	5,247	130p	5,247	130p

The warrants outstanding at 31 October 2010 had a weighted average exercise price of £1.30 and a weighted average contractual life of 6 years. The subscription rights attached to each warrant in issue must be exercised within 10 years of the date of grant.

The fair value of warrants granted were determined using 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. The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond.

Cash Bonus Award

During the year, the Independent Board members approved a cash bonus award to J G Carroll, J C Fraser and MT J Molyneux. The bonus is not payable until a sale of the entire issued share capital of the Company at the time of grant, for an amount valuing the Company at least 15 pence per Ordinary Share. The bonus has good leaver and bad leaver terms similar to the Management Incentive Plan and has a graduated payout between 15 pence and 18.5 pence per Ordinary Share.

The fair value of the cash bonus award was determined using the Monte-Carlo Simulation. One of the provisions of the cash bonus award is around the performance of the Company's stock price which is a market condition (i.e. trading above 15 pence). The expense recognised is based upon the fair value determined above the 15 pence value regardless of the stock price at the time of the change of control. The other significant inputs into the calculation for the cash bonus award granted during the year were the expected volatility of 84.99% the cash bonus award life of 5 years, the expected dividend yield of Nil, and the risk-free interest rate of 1.62%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

17 Financial liabilities

	31 October 2010			31 October 2009		
	< 1 year £000s	1 – 5 years £000s	Total £000s	< 1 year £000s	1 – 5 years £000s	Total £000s
Liabilities to banks	4,503	9,733	14,236	1,596	13,144	14,740
Obligations under finance leases	107	273	380	88	347	435
	4,610	10,006	14,616	1,684	13,491	15,175

Interest on the liabilities to banks is payable at a variable rate, which is set at 4.50% above LIBOR on both denominated components of loan of which 100% has been fixed by means of an interest rate swap agreement at 4.0%. The bank loan is secured on the assets of Travelzest plc. In November 2010, the fixed rate increases to 8.48% on the Canadian denominated element of the loan.

During the prior year, the Group renegotiated the existing facility of £14,500,000 of which £10,000,000 is now denominated in Canadian dollars. In May 2010 a repayment of £1,729,000 was made, along with a further repayment of £2,251,000 in November 2010. Repayments are due every six months thereafter with a balloon payment in May 2012. The loan is presented net of the arrangement fee of £401,000 (2009: £687,000).

The Group is currently reviewing new facilities that will amend the term and structure of the current facility to more commercially beneficial terms.

Finance lease liabilities primarily relate to technology infrastructure in Canada. Group obligations under finance leases are payable as follows:

	Principal £000s	Interest £000s	Minimum lease payments £000s
One year	107	28	135
One to five years	273	30	303
Total	380	58	438

18 Trade and other payables

	31 October 2010			Re-presented 31 October 2009		
	< 1 year £000s	1 – 5 years £000s	Total £000s	< 1 year £000s	1 – 5 years £000s	Total £000s
Trade payables	1,525	–	1,525	2,821	–	2,821
Liabilities relating to social security and other taxes	72	–	72	54	–	54
Other liabilities	8,434	622	9,056	8,555	6	8,561
	10,031	622	10,653	11,430	6	11,436
Deferred tax	–	484	484	–	871	871
Current tax liabilities	1,508	–	1,508	366	–	366
	11,539	1,106	12,645	11,796	877	12,673

19 Derivative financial instruments

	2010 £000s	Re-presented 2009 £000s
Liabilities from derivative financial instruments	1,247	1,691

Derivative financial instruments, all with a remaining term of more than one year, primarily serve to hedge future operative business. All instruments are outlined in Note 27. The fair value of the financial derivatives has been determined by relevant active market valuations.

During the prior year, interest swaps denominated in sterling and Canadian dollar that were aligned to the restated facility in June 2009 were terminated and new interest swaps matching the amounts of the loan denominated in Canadian dollar and sterling. An element of the future cash flows relating to the former sterling interest swaps no longer exists and has been released from the cash flow hedge reserve to the income statement to the value of £262,000 (2009: £128,000).

All financial instruments have been designated as hedging instruments as cash flow hedges in accordance with IAS 39, except for the Canadian dollar denominated interest rate swap which is an ineffective economic hedge. The following table indicates the periods in which the cash flows associated with the derivatives which as a cash flow hedge are expected to occur.

31 October 2010	Projected cash inflows/(outflows)				
	Fair value of instrument	< 1 year	1 – 2 years	2 – 5 years	>5 years
	£000s	£000s	£000s	£000s	£000s
Derivative financial assets					
Weather derivative	171	171	–	–	–
Foreign exchange forward contracts	19	19	–	–	–
Derivative financial liabilities					
Weather derivative	(171)	(171)	–	–	–
Interest rate swaps	(1,076)	(796)	(280)	–	–

31 October 2009	Re-presented Projected cash inflows/(outflows)				
	Fair value of instrument	< 1 year	1 – 2 years	2 – 5 years	>5 years
	£000s	£000s	£000s	£000s	£000s
Derivative financial assets					
Weather derivative	350	350	–	–	–
Foreign exchange forward contracts	23	23	–	–	–
Derivative financial liabilities					
Weather derivative	(350)	(350)	–	–	–
Interest rate swaps	(1,338)	(532)	(606)	(200)	–
Foreign exchange forward contracts	(3)	(3)	–	–	–

During the year effectiveness relating to the cash flow hedges has been recognised in the income statement amounting to £213,000 (2009: £73,000).

20 Contingent liabilities

VFB Holidays Limited has provided a bond to AITOT for £Nil (2009: £616,700) and IATA £195,000 (2009: £85,000) and ABTOT for £540,000 (2009: £Nil), JMB Travel Consultants Limited to ABTOT for £21,000 (2009: £23,000), Fair's Fare Limited provide a bond to IATA for £390,000 (2009: £395,000), Peng Travel Limited to ABTA £117,000 (2009: £137,000), and 4358736 Canada Inc. provided a bond in favour of the Office of the Protection of Consumers for CAD \$150,000 (2009: CAD \$150,000).

Barclays Bank plc holds an unlimited debenture over the assets of the Company, including the shares in subsidiary companies in respect of loans made to the holding company. Barclays Bank plc holds an unlimited debenture over the assets of the Company and UK subsidiaries in respect of ancillary facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

21 Commitments under operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010		2009	
	Land and buildings £000s	Other items £000s	Land and buildings £000s	Other items £000s
Within 1 year	828	219	666	176
Within 2 to 5 years	3,019	298	2,409	319
After more than 5 years	2,380	–	2,184	–
	6,227	517	5,259	495

22 Other financial commitments

The Group had the following capital commitments at the year end:

	2010 £000s	2009 £000s
Website development	–	15

23 Related party transactions

Key management is considered the Board of directors. Refer to Note 4 for directors remuneration.

J G Carroll is a shareholder through Coote Street Capital LP and J C Fraser is a direct shareholder and director, in 2149201 Ontario Inc. S Carroll and E Carroll, brother and father respectively of J G Carroll, are also shareholders in 2149201 Ontario Inc. through Coote Street Capital LP and S Carroll is also a director in 2149201 Ontario Inc. In 2008, this company entered into a property lease agreement (as landlord) with 4358376 Canada Inc., carrying on business as itravel2000 (as tenant). The property is located at 2350 Matheson Boulevard East, Mississauga, Ontario, Canada, and the lease is for the entire building (approximately 40,000 square feet) and lands (approximately 140 parking spaces). The term of the lease is 10 years from 1 October 2008 to 30 September 2018 with market competitive net rate of CAD \$18.50 per square foot in years 1 to 5, and CAD \$23.50 per square foot in years 6 to 10. All operating and maintenance costs are to the tenant's account. A leasehold improvement allowance of up to CAD \$800,000 was included as part of the lease inducement by the landlord.

24 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

	2010 £000s	2009 £000s
Operating (loss)/profit	(7,999)	1,293
Amortisation	861	1,398
Depreciation	325	301
Change in inventories	46	(31)
Change in operating receivables	(149)	(1,098)
Share-based payments	130	(557)
Change in operating payables	(19)	(552)
Goodwill impairment	11,320	–
Loss on disposal of tangible and intangible fixed assets	421	–
	4,936	754

Included within changes in operating payables in 2009 is £280,000 relating to placing fees.

25 Re-presentation of the 2009 consolidated income statement and 2009 consolidated balance sheet

The 2009 income statement has been re-presented to reclassify £1,638,000 costs in respect of agents' commission from administrative expenses to cost of sales. The 2009 consolidated balance sheet has been re-presented to reclassify £350,000 derivative financial instruments from trade and other payables to derivative financial instruments and to reclassify £135,000 accrued liabilities from derivative financial instruments (current assets) to accrued liabilities.

26 Post balance sheet events

Post 31 October 2010 the Company secured a seasonal overdraft facility of £1.5 million from its primary bank with standard terms that fall within the current facility. There have been no other significant post balance sheet events since 31 October 2010.

27 Financial risk management objectives and policies

Financial instruments by category

	Loans and receivables £000s	Assets at fair value through the profit and loss £000s	Derivatives used for hedging £000s	Total £000s
31 October 2010				
Assets as per balance sheet				
Derivative financial instruments	–	190	–	190
Trade and other receivables exc. corporation tax, prepayments and accrued income	6,800	–	–	6,800
Cash and cash equivalents	5,850	–	–	5,850
Total	12,650	190	–	12,840

	Liabilities at fair value through the profit and loss £000s	Derivatives used for hedging £000s	Other financial liabilities at amortised cost £000s	Total £000s
31 October 2010				
Liabilities as per balance sheet				
Borrowings	–	–	14,236	14,236
Trade and other payables exc. statutory liabilities, accrued expenses and deferred income	–	–	1,525	1,525
Obligations under finance leases	–	–	380	380
Derivative financial instruments	1,072	175	–	1,247
Total	1,072	175	16,141	17,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

27 Financial risk management objectives and policies continued

	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Total
31 October 2009	£000s	£000s	£000s	£000s
Assets as per balance sheet				
Derivative financial instruments	–	373	–	373
Trade and other receivables exc. corporation tax, prepayments and accrued income	6,353	–	–	6,353
Cash and cash equivalents	5,585	–	–	5,585
Total	11,938	373	–	12,311

	Liabilities at fair value through the profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
31 October 2009	£000s	£000s	£000s	£000s
Liabilities as per balance sheet				
Borrowings	–	–	14,740	14,740
Trade and other payables exc. statutory liabilities, accrued expenses and deferred income	–	–	2,821	2,821
Obligations under finance leases	–	–	435	435
Derivative financial instruments	1,476	215	–	1,691
Total	1,476	215	17,996	19,687

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework and to ensure that the Group has adequate policies, procedures and controls to successfully manage the financial risks that it faces. These form part of the Group's overall Risk Management Framework.

Incorporated within the framework's terms of reference are the determination of all treasury policies and the monitoring of the effectiveness of those policies. Group Treasury implements and agrees policies on a day-to-day basis. The procedures also stipulate the levels of authority applied to dealing and to approving the types of hedging financial instrument used to manage these exposures. Transactions are only undertaken to hedge underlying exposures. Financial instruments are not traded, nor are speculative positions taken.

The Treasury position of the Group, including liquidity and foreign exchange hedging exposure, is managed centrally in accordance with policies appropriate to cover specific risks faced by each business unit, and is the responsibility of the Financial director. Management conducts regular reviews of financial risks with business unit management teams. Reports and forecasts are submitted monthly to the Board.

In line with its established policy, the Group has monitored throughout the year its counterparty exposure with individual financial institutions. Such counterparty risk can arise by way of cash deposited or derivative instruments traded.

The Group uses various financial instruments. These include loans and cash together with various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations and group acquisitions. As a matter of principle, all hedging transactions of the Group were based on appropriately recognised or future underlying items. The hedging transactions by the Group companies were based on the risk profile and hedge schedule of the respective company. The existence of these financial instruments exposes the Group to a number of financial risks, market risk (in respect of foreign currency rate risk and interest rate risk), liquidity risk (in respect of the Group's ability to meet its liabilities) and credit risk (in respect of recovery amounts owing to the Group). The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Currency risk

The Group publishes its consolidated financial statements in sterling and as a result, it is subject to foreign currency exchange translation risk in respect of the translation of the results and underlying assets of its foreign operations into sterling. In relation to translation risk, as far as possible the assets held in the foreign currency are matched to an appropriate level of borrowings in the same currency. Transaction exposures, including those associated with forecast transactions, are hedged when known, principally using forward currency contracts. Transaction exposures primarily comprise accommodation and other costs of overseas holidays payable in currencies other than sterling.

The table below shows the extent to which the Group had financial assets and liabilities at the year end in currencies other than sterling:

	2010 £000s	2009 £000s
Cash at bank and in hand		
Canadian dollars	1,243	992
Euros	14	96
US dollars	1,242	349
Other currencies	5	–
Bank Loans		
Canadian dollars	10,602	10,919
Trade and other receivables		
Canadian dollars	4,657	5,193
US dollars	1,067	485
Trade and other payables		
Canadian dollars	4,649	5,725
US dollars	55	–

The Group hedges its foreign currency exposures generally on a seasonal basis, i.e. winter and summer seasons. At the start of the season the Group will have hedged some of its foreign currency exposure for that season, using predominantly forward exchange contracts, most with a maturity of less than one year from the reporting date.

At the year end the Group had the following forward exchange contracts:

	2010		2009	
	Total sterling commitment	Fair value of forward element of contract	Total sterling commitment	Fair value of forward element of contract
	£000s	£000s	£000s	£000s
Euro	700	19	253	23
US dollars	–	–	184	(2)
Moroccan Dirham	–	–	50	(1)

The following significant exchange rates to the Group's Sterling presentation currency are illustrative of the rates applied during the current year and prior year:

	2010		2009	
	Average rate	Spot rate	Average rate	Spot rate
Euro	1.1558	1.1507	1.1305	1.1177
Canadian dollars	1.6169	1.6363	1.8012	1.7723
US dollars	1.5566	1.5988	1.5444	1.6445

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade and other receivables exposures are managed locally in the operating businesses where they arise; there is no concentration of credit risk with respect to trade and other receivables due to a majority of holidays being paid for in advance. The maximum exposure to credit risk is £4,948,000 as outlined in Note 11.

In addition, the Group makes prepayments for hotel accommodation. Whilst such prepayments do not meet the definition of a financial asset under IAS39, such prepayments give rise to a risk similar to credit risk due to the inherent risk of the Group not recovering the prepayment through full delivery of the related goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

27 Financial risk management objectives and policies continued**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

The Group's liquidity peaks in July and August during the European summer holiday season and December through February during the North American holiday season, with the liquidity low points in April and November.

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group's financial assets are highlighted below:

	2010 £000s	Re-presented 2009 £000s
Trade accounts receivable	4,948	4,276
Other receivables	1,852	2,077
	6,800	6,353
Derivatives designated as cash flow hedges		
Derivatives financial instruments	190	373
Cash	5,850	5,585

The Board remains satisfied with the Group's funding and liquidity position. Further information on the borrowings of the Group is given in Note 17 to the accounts. The table below provides details of the Group's undiscounted financial liabilities at year end:

	31 October 2010			Re-presented 31 October 2009		
	< 1 year	1 – 5	Total	< 1 year	1 – 5	Total
	£000s	years £000s	£000s	£000s	years £000s	£000s
Financial liabilities measured at amortised cost						
Liabilities to banks	4,503	9,733	14,236	1,596	13,144	14,740
Obligations under finance leases	107	273	380	88	347	435
To third parties	1,525	–	1,525	2,821	–	2,821
Other liabilities	8,506	622	9,128	8,609	6	8,615
	14,641	10,628	25,269	13,114	13,497	26,611
Derivatives designated as cash flow hedges						
Derivative financial instruments	1,039	208	1,247	871	820	1,691

Interest rate risk

The Group finances its operations through retained profits. Acquisitions are financed through a combination of share capital, loan notes and bank borrowings. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of interest rate swaps. Details of interest rates on borrowings are given in Note 17 to the accounts.

Sensitivity analysis

The sensitivity analysis is for illustrative purposes only and should be considered a projection of likely future events and gains or losses.

The sensitivity analysis includes the following assumptions:

- Change in market interest rates only affect interest income or expense of variable financial instruments;
- Change in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates are recognised at fair value;
- Change in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments; and
- All foreign currency hedges are expected to be highly effective.

Currency risk

Under these assumptions, with a 10% strengthening of sterling against all other currencies, profit after tax would be decreased by £0.3m (2009: decrease by £0.2m) and equity would be decreased by £3.3m (2009: decreased by £3.8m). A 10% weakening of Sterling against all other currencies would result in a gain after tax of £0.4m (2009: gain of £0.2m) and an increase in equity of £4.1m (2009: increase of £4.7m).

Interest rate risk

Under these assumptions, with a 1% (100 basis point) difference in market interest rates, loss after tax would have reduced or increased by £0.1m (2009: £0.1m).

Fair value estimation

Effective 1 January 2009, the Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy.

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 October 2010:

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets at fair value through profit and loss	–	190	–	190
Total assets	–	190	–	190
Financial liabilities at fair value through profit and loss	–	1,072	–	1,072
Derivatives – cash flow hedges	–	175	–	175
Total liabilities	–	1,247	–	1,247

The following table presents the Group's assets and liabilities that are measured at fair value at 31 October 2009:

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial assets at fair value through profit and loss	–	373	–	373
Total assets	–	373	–	373
Financial liabilities at fair value through profit and loss	–	1,476	–	1,476
Derivatives – cash flow hedges	–	215	–	215
Total liabilities	–	1,691	–	1,691

The fair value of interest rate swaps and forward foreign currency contracts is calculated as the present value of the estimated future cash flows based on observable yield curves.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAVELZEST PLC

We have audited the parent company financial statements of Travelzest plc for the year ended 31 October 2010 which comprise the Company balance sheet, the Company statement of changes in shareholders' funds, the Company principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Travelzest plc for the year ended 31 October 2010.

John Minards

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

7 February 2011

COMPANY BALANCE SHEET

	Notes	31 October 2010 £000s	31 October 2009 £000s
Fixed assets			
Tangible fixed assets	A	17	14
Investments	B	23,810	25,143
		23,827	25,157
Current assets			
Debtors	C	20,247	22,265
Deferred taxation	G	–	743
Cash at bank		2,702	2,012
		22,949	25,020
Creditors: amounts falling due within one year	D	(5,666)	(2,794)
Net current assets		17,283	22,226
Total assets less current liabilities		41,110	47,383
Creditors: amounts falling due after more than one year	E	(9,811)	(13,144)
		31,299	34,239
Capital and reserves			
Called-up equity share capital	I	2,903	2,903
Share premium account	J	31,456	31,524
Merger reserve	J	3,357	3,357
Profit and loss account	J	(6,417)	(3,545)
Shareholders' funds		31,299	34,239

These financial statements were approved by the directors on 7 February 2011 and are signed on their behalf by:

J G Carroll
Director

J C Fraser
Director

Company registered number: 04520457

COMPANY STATEMENT OF CHANGES IN EQUITY

	2010 £000s	2009 £000s
Loss for the financial year	(3,021)	(1,533)
Issue of shares (net of expenses)	(68)	17,241
Conversion of exchangeable shares	–	(12,735)
Share-based payments	149	(557)
Net (reduction)/addition to shareholders' funds	(2,940)	2,416
Opening shareholders' funds	34,239	31,823
Closing shareholders' funds	31,299	34,239

COMPANY PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention, and in accordance with UK GAAP and the accounting policies have been applied consistently. The financial statements are prepared in accordance with the Companies Act 2006.

Accounting convention

The financial statements are prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006. The loss dealt with in the accounts of the parent company under UK GAAP is £3,021,000 (2009: loss of £1,533,000).

Under Financial Reporting Standard No 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement as its cash flows are included within the published consolidated cash flow statement of Travelzest plc.

The Company has taken advantage of the exemption contained within Financial Reporting Standard No 8 and has not therefore disclosed transactions or balances with wholly owned entities that form part of the Group.

The Company has taken advantage of the exemption contained within Financial Reporting Standard No 29 and has not provided the required financial instruments disclosure on the basis that the Group's consolidated financial statements include consolidated IFRS 7 disclosures which are compliant with the requirements of FRS 29.

Merger relief

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.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value. Such provisions are charged to the profit and loss account. The directors will carry out an impairment review if there are events or circumstances which indicate that the carrying value of the investment may not be recoverable. Where loans made to Group undertakings are not expected by the director's to be repaid in the foreseeable future these are treated as equity in nature and are classified within fixed asset investments.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on a straight line basis:

Office equipment and computer equipment – 3 to 5 years

Operating lease agreements

Rentals applicable to land and building 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.

Pension costs

The Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

COMPANY PRINCIPAL ACCOUNTING POLICIES

continued

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

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 or Monte-Carlo Simulation pricing models. 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. When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The Group also issued a cash bonus award which is recorded as cash settled share-based compensation. The fair value of the cash bonus award is calculated using the Monte-Carlo Simulation pricing model at each reporting date. The fair value is charged to the income statement with a corresponding entry to non-current liabilities.

Directors

Details of directors' remuneration, share-based payments and pension entitlements in the current period and prior period are contained in Note 4 to the consolidated financial statements. Details of share-based payments are also contained in Note 16 to the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A Tangible fixed assets

	Office equipment £000s	Computer equipment £000s	Total £000s
Cost			
At 1 November 2009	8	37	45
Additions	–	24	24
At 31 October 2010	8	61	69
Depreciation			
At 1 November 2009	8	23	31
Charge for the year	–	11	11
Disposals	–	10	10
At 31 October 2010	8	44	52
Net book value			
At 31 October 2010	–	17	17
At 31 October 2009	–	14	14

B Fixed asset investments

	Long term loans to Group undertakings £000s	Equity interests in subsidiary undertakings £000s	Total £000s
Cost			
At 1 November 2009	13,198	11,945	25,143
Impairment of investment in Holiday Express (UK) Limited	–	(1,298)	(1,298)
Impairment of investment in Travelzest Holidays Limited	–	(20)	(20)
Impairment of investment in Travelzest Holdings (UK) Limited	–	(15)	(15)
At 31 October 2010	13,198	10,612	23,810
Net book value			
At 31 October 2010	13,198	10,612	23,810
At 31 October 2009	13,198	11,945	25,143

The directors believe that the carrying value of the investments is supported by their underlying net assets or future discounted cash flows.

On 1 November 2009, the Company amalgamated the below subsidiaries together with 4358736 Canada Inc. remaining as the surviving corporation.

	Country of registration	Class of share capital held	Proportion held by Company	Nature of business
Travelzest Holdings Inc	Canada	Ordinary	100%	Holding company
0763756 BC Limited	Canada	Ordinary	100%	Holding company
4358736 Canada Inc. (trading as itravel2000)	Canada	Common	100%	Agents

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

B Fixed asset investments continued

At 31 October 2010, the Company held more than 20% of the allotted share capital of the following trading and holding companies:

	Country of registration	Class of share capital held	Proportion held by Company	Nature of business
Holiday Express (UK) Limited	England & Wales	Ordinary	100%	Agents
Travelzest Canco Limited	England & Wales	Ordinary	100%	Holding company
Travelzest Holidays Limited (formerly Wow House Limited)	England & Wales	Ordinary	100%	Agents
Travelzest Holdings (UK) Limited	England & Wales	Ordinary	100%	Holding company

The shareholdings above also represent the proportion of voting rights held. All subsidiaries have been included in the consolidated accounts. The Company also indirectly owns the following companies:

	Country of registration	Class of share capital held	Proportion held by Group	Nature of business
VFB Holidays Limited (formerly Travelzest Retail (UK) Limited)	England & Wales	Ordinary	100%	Merchant
Vacances Franco-Britanniques Limited	England & Wales	Ordinary	100%	Merchant
4358736 Canada Inc. (trading as itravel2000)	Canada	Common	100%	Agents
The Cruise Professionals Limited	Canada	Common	100%	Agents
7500106 Canada Inc. (trading as Travelcash)	Canada	Common	100%	Payment Programs
Best of Morocco Limited	England & Wales	Ordinary	100%	Merchant
Peng Travel Limited	England & Wales	Ordinary	100%	Merchant
Montpelier Collection Limited	England & Wales	Ordinary	100%	Holding company
Fair's Fare Limited	England & Wales	Ordinary	100%	Agents
Tapestry Collection Limited	England & Wales	Ordinary	100%	Merchant
Captivating Cuba Limited	England & Wales	Ordinary	100%	Merchant
JMB Travel Consultants Limited	England & Wales	Ordinary	100%	Merchant

C Debtors

	2010 £000s	2009 £000s
Amounts owed by Group companies	20,176	22,167
Other debtors	55	8
Prepayments and accrued income	16	90
	20,247	22,265

Included within amounts owed by Group companies are amounts due from Travelzest plc's overseas subsidiaries which bear interest of 8.48%, all other amounts are interest free. Voluntary repayments can be made at any time.

D Creditors: amounts falling due within one year

	2010	2009
	£000s	£000s
Bank loans	4,503	1,596
Trade creditors	249	217
Social security & other taxes	10	19
Corporation tax	–	77
Accruals and deferred income	904	885
	5,666	2,794

E Creditors: amounts falling due after more than one year

	2010	2009
	£000s	£000s
Bank loan	9,733	13,144
Deferred tax	61	–
Other creditors	17	–
	9,811	13,144

F Creditors – capital instruments

Bank loans are repayable:

	2010	2009
	£000s	£000s
In one year or less or on demand	4,503	1,596
Between one and two years	9,733	4,253
Between two and five years	–	8,891
	14,236	14,740

Interest is payable on bank loans:

	2010	2009
	£000s	£000s
Variable interest rate	14,236	14,740

Interest on the liabilities to banks is payable at a variable rate, which is set at 4.50% above LIBOR on both denominated components of loan of which 100% has been fixed by means of an interest rate swap agreement at 4.0%. The bank loan is secured on the assets of Travelzest plc. In November 2010, the fixed rate increases to 8.48% on the Canadian denominated element of the loan.

During the prior year, the Group renegotiated the existing facility of £14,500,000 of which £10,000,000 is now denominated in Canadian dollars. In May 2010, a repayment of £1,729,000 was made along with a further repayment of £2,251,000 in November 2010. Repayments are due every six months thereafter with a balloon payment in May 2012. The loan is presented net of the arrangement fee of £401,000 (2009: £687,000).

The Group is currently reviewing new facilities that will amend the term and structure of the current facility to more commercially beneficial terms.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

G Deferred taxation

The movement in the deferred taxation provision/(asset) during the year was:

	2010 £000s	2009 £000s
Deferred tax (asset)/liability brought forward	(743)	–
Charged/(credited) to the profit and loss account	838	(743)
(Credited)/charged to equity	(34)	–
Deferred tax liability/(asset) carried forward and (Note E)	61	(743)

With effect from 1 April 2011 the tax rate will reduce from 28% to 27%. Deferred tax has been provided for at 27%. The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2010 £000s	2009 £000s
Share-based payment	61	–
Other short-term timing differences	–	(743)

H Commitments under operating leases

At 31 October 2010, the Company had no annual commitments under non cancellable operating leases.

I Share capital

Authorised share capital:

	2010 £000s	2009 £000s
259,550,000 ordinary shares of £0.02 each	5,191	5,191

Issued, called up and fully paid:

	2010		2009	
	No.	£000s	No.	£000s
Ordinary shares of £0.02 each	145,136,110	2,903	145,136,110	2,903

In the prior year, and in accordance with the Exchange Rights Agreement dated 13 October 2006, Travelzest Holdings Inc., a wholly-owned indirect subsidiary of Travelzest plc, purchased the 10,572,614 Class A shares in 0763756 BC Limited from 6615716 Canada Inc. The shares are issued at 120p. The exchangeable shares were originally issued as part consideration of the acquisition of itravel2000 in October 2006.

In September 2009, the Company issued 114,170,000 ordinary shares of 2p each at a premium of 3p raising £5,710,000. The placing fees associated were £924,000.

All shares are equally entitled to receive dividends and the repayment of capital and represent one vote at shareholders' meeting.

J Reserves

	Share premium account £000s	Merger reserve £000s	Profit and loss account £000s
At 1 November 2009	31,524	3,357	(3,545)
Loss for the year	–	–	(3,021)
Issue of shares (net of expenses)	(68)	–	–
Share-based payments	–	–	149
At 31 October 2010	31,456	3,357	(6,417)

K Loss attributable to the shareholders of the parent company

The loss dealt with in the accounts of the parent company was £3,021,000 (2009: loss of £1,533,000).

L Contingent liabilities

Barclays Bank plc holds an unlimited debenture over the assets of the holding company, including the shares in subsidiary companies in respect of loans made to the holding company. Barclays Bank plc holds an unlimited debenture over the assets of the Company and UK subsidiaries in respect of ancillary facilities.

M Share-based payments

Share options

	Employee Option Scheme		Management Incentive Plan	
	Number of share options 000s	Weighted average exercise price	Number of share options 000s	Weighted average exercise price
2009				
Outstanding at the beginning of the year	1,457	136p	–	–
Terminated in year	(1,186)	138p	–	–
Granted during the year	–	–	–	–
Outstanding at the end of the year	271	129p	–	–
Exercisable at the end of year	261	130p	–	–
2010				
Outstanding at the beginning of the year	271	129p	–	–
Terminated in year	(167)	97p	–	–
Granted during the year	–	–	28,587	12.1p
Outstanding at the end of the year	104	125p	28,587	12.1p
Exercisable at the end of year	104	125p	–	–

Employee Option Scheme

The Company issues long-term incentive stock options to certain employees under an approved and unapproved option scheme. Both schemes have similar terms that include a minimum vesting period of 3 years from the date of grant and active employment in the Group.

The fair value of options granted were determined using the Black-Scholes pricing model.

An amount of £105,000 (2009: credit of £557,000) relating to share options not vested held by employees who have left in the year has been credited to the income statement.

Management Incentive Plan

The Company detailed in the Shareholder Circular issued 5 August 2009 the creation of a Management Incentive Plan which was agreed by shareholders at the General Meeting of 28 August 2009. In 2010, 28,587,000 options were granted. No options were granted in the prior year. The incentive options have a market exercise price and vest in the event of a sale of the entire issued share capital of the Company for an amount valuing the Company at least 15 pence per Ordinary Share. The options have good leaver and bad leaver terms, and all share options must be exercised within 10 years of the date of grant.

The fair value of options granted has been determined using the Monte-Carlo Simulation which is a generally accepted statistical technique used, in this instance, to simulate a range of possible future stock prices for the Company. The method uses geometric Brownian motion based upon a risk-neutral framework. The model projects stock prices on a daily basis assuming 250 trading days per year. The significant inputs into the calculation for share options granted during the year were the weighted average share price factored into the model of 12.1 pence, the exercise price ranges between 7.5 pence and 18.5 pence, the expected volatility of approximately 85% the option life of 5 years, the expected dividend yield of Nil, and the risk-free interest rate between 2.06% and 2.91%.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

M Share-based payments continued**Warrants**

Details of the share warrants outstanding during the year are as follows:

	2010		2009	
	Number of share warrants 000s	Weighted average exercise price	Number of share warrants 000s	Weighted average exercise price
Outstanding at the beginning of the year	5,247	130p	5,247	130p
Granted during the year	–	–	–	–
Outstanding at the end of the year	5,247	130p	5,247	130p
Exercisable at the end of year	5,247	130p	5,247	130p

The warrants outstanding at 31 October 2010 had a weighted average exercise price of £1.30 and a weighted average contractual life of 6 years. The subscription rights attached to each warrant in issue must be exercised within 10 years of the date of grant.

The fair value of warrants granted were determined using 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. The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond.

Cash Bonus Award

During the year, the Independent Board members approved a cash bonus award to J G Carroll, J C Fraser and MT J Molyneux. The bonus is not payable until a sale of the entire issued share capital of the Company at the time of grant, for an amount valuing the Company at least 15 pence per Ordinary Share. The bonus has good leaver and bad leaver terms similar to the Management Incentive Plan and has a graduated payout between 15 pence and 18.5 pence per Ordinary Share.

The fair value of the cash bonus award was determined using the Monte-Carlo Simulation. One of the provisions of the cash bonus award is around the performance of the Company's stock price which is a market condition (i.e. trading above 15 pence). The expense recognised is based upon the fair value determined above the 15 pence value regardless of the stock price at the time of the change of control. The other significant inputs into the calculation for the cash bonus award granted during the year were the expected volatility of 84.99% the cash bonus award life of 5 years, the expected dividend yield of Nil, and the risk-free interest rate of 1.62%.

N Financial instruments

The fair value of the Company's financial instruments are set out below:

	2010 £000s	2009 £000s
Derivative financial assets – forward foreign currency contracts	19	23
Derivative financial liabilities – forward foreign contracts	–	(3)
Derivative financial liabilities – interest rate swaps	(1,076)	(1,338)
	(1,057)	(1,318)

Further information on the forward contracts and the interest rate swaps has been given in Note 27 to the consolidated financial statements.

O Post balance sheet events

Post 31 October 2010 the Company secured a seasonal overdraft facility of £1.5 million from its primary bank with standard terms that fall within the current facility. There have been no other significant post balance sheets events since 31 October 2010.

COMPANY INFORMATION

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N J Jenkins
MT J Molyneux (Chairman)

Company Secretary

R G Hall

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